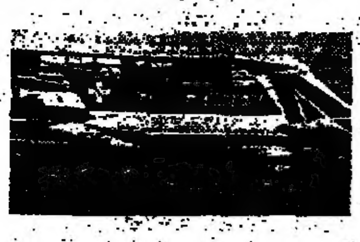
European air travel
Why fares may not come down
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White goods
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FINANCIAL TIMES

Wednesday June 24 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

ANC breaks off constitutional talks with Pretoria

The African National Congress last night broke off constitutional talks with the South African government, accusing it of bringing the country to "the brink of disaster". The ANC made clear, however, that it wished to keep the negotiating process alive.Page 16

US to tighten Belgrade sanctions: The US issued its toughest condemnation of the "barbaric" killing of civilians in Bosnia by Serbian militias and announced it was tightening sanctions against the Belgrade government. Page 16

Renault: The French state-owned carmaker and Volvo, its Swedish partner, are to strengthen their alliance by pooling most of their car component purchasing and all their quality control activities. Page 17

German EFA proposal: Volker Rühe, German defence minister, proposed that the controversial European Fighter Aircraft should be scrapped and replaced with a cheaper aircraft. Page 16

Nestlé: The Swiss food group is believed to be negotiating with the European Commission in an attempt to persuade Brussels to clear its FFr15.46bn ($2.9bn) bid for Perrier, French mineral water. Page 17

Mirror Group Newspapers, formerly headed by the late Robert Maxwell, and its pension funds were hit by "fraudulent collusion" by a group of senior individuals, Sir Robert Clark, chairman of the newspaper group, said. Page 8

Former Olivetti chief dies: Vittorio Cassoni, former chief executive of Italy's Olivetti Computers and Office Equipment Group, died in Milan on Sunday at the age of 51. He had been suffering from a brain tumour, Page 2

Mafia leader sentenced to life in prison

John Gotti (left), US Mafia leader, was sentenced in New York yesterday to life in prison on murder and racketeering convictions. Gotti, 51, was convicted in April of murdering his predecessor, Paul Castellano, to take over the Gambino crime family, the largest criminal syndicate in the US. After the sentencing, 500 Gotti supporters tried unsuccessfully to storm the courthouse in an effort to free him.

Olympia & York: The troubled Canadian property developer, plans to sell about a dozen of its US office buildings and concentrate in future on high-quality properties in a limited number of cities. Page 17; Contractors consider action over Canary Wharf, Page 25

Perot draws double fire: US president George Bush and Democratic presidential challenger Bill Clinton united to condemn private investigations of prominent public figures allegedly ordered by Ross Perot, likely independent presidential candidate. Page 5

Paris names Bull chief: Bernard Pache, chairman of Charbonnages de France, will succeed Francis Lorentz as chairman of Bull, heavily lossmaking computer group, the French government announced. Page 17; Observer, Page 15

US braced for rail chaos: The US rail system was braced for possible coast-to-coast industrial action which could bring chaos to both freight and passenger services. Page 6

Ferranti International: The electronics and defence group, which came close to collapse following the discovery in 1989 of huge fraud in its US subsidiary, International Signal and Control, appeared to be on course for recovery after reporting pre-tax losses of £30.6m ($73.3m), less severe than expected. Page 18; Comment, Page 25

Arrests in Bombay scandal: Indian police have arrested two leading Bombay brokers and brought criminal charges against Standard Chartered, UK-based bank, and two state-owned Indian merchant banks for alleged fraud in India's worst securities market scandal.

Lisbon wins 1998 world fair: Lisbon, proposing a salute to Portuguese explorer Vasco da Gama, has been chosen ahead of Toronto to host an international fair in 1998.

Wimbledon: Britain's Jeremy Bates produced the first shock of the Championships, beating seventh seed Michael Chang of the US 6-4 6-3 6-3, prompting tennis bookmakers to slash his odds from 1,000-1 to 500-1 – the same as the price quoted for the Second Coming. Page 9

■ STOCK MARKET INDICES		
FT-SE 100	2,558.6	(+10.3)
Yield	4.78	
FT-SE Eurotrack 100	1,148.48	(−1.28)
FT-A All-Share	1,236.62	(+0.3%)
Nikkei	16,106.99	(+185.77)
New York: lunchtime		
Dow Jones Ind Ave	3,285.08	(+4.28)
S&P Composite	404.50	(+1.10)
■ **US LUNCHTIME RATES**		
Federal Funds	3 11/16%	
3-mo Treas Bills: Yld	3.745%	
Long Bond	101 13/32	
Yield	7.843%	
■ **LONDON MONEY**		
3-mo Interbank	10 1/8%	(10 1/16%)
Liffe long gilt future:	Sep 97 1/4	(Sep 97 1/2)
■ **NORTH SEA OIL (Argus)**		
Brent 15-day (Aug)	$21.26	(20.875)
■ **Gold**		
New York Comex (Jun)	$344.5	(343.7)
London	$344.65	(342.6)

■ STERLING		
New York lunchtime:		
$	1.8635	
London:		
$	1.8635	(1.8615)
DM	2.9175	(2.915)
FFr	9.82	(9.815)
SFr	2.64	(2.635)
Y	237	(236.5)
£ Index	83.9	(same)
■ **DOLLAR**		
New York lunchtime:		
DM	1.56505	
FFr	5.2685	
SFr	1.4695	
Y	127.15	
London:		
DM	1.5655	(1.565)
FFr	5.27	(5.2725)
SFr	1.4165	(1.415)
Y	127.2	(127.05)
$ Index	62.2	(same)
Tokyo close Y 128.96		

Austria	Sch30	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR9.00
Bahrain	Din1,000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L6000
France	FFr8.50	Kuwait	Fils 500	Poland	Zl 16,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

Commission may cede some central powers

By David Buchan in Brussels

THE European Commission is for the first time seriously considering the return to EC states of some powers that have been taken over by Brussels.

The Commission is seeking to deflect criticism that its bureaucratic red tape has snared governments and citizens in an over-centralised Community.

Its new stress on "subsidiarity" – making laws and rules at the lowest appropriate level – comes too late to influence Danish voters who earlier this month rejected the Maastricht union treaty.

However, its change of emphasis will be in time for this week's EC summit in Lisbon, where a lively debate on subsidiarity is expected.

The Commission will today prepare its view on subsidiarity on the basis of a paper which seeks to ward off "the accusations of bureaucracy and technocracy".

Real centralisation is beyond the means of EC administrators whose money and staff "will not in any manner be comparable to those of a federal state", it says.

The paper, prepared for the Commission by the office of its president, Mr Jacques Delors, makes no precise proposals about which powers might be returned to governments.

Officials predicted yesterday that today's discussion in the 17-member Commission board would result in an instruction to the Commission's 23 directorates to search for examples of subsidiarity in their areas.

The Commission's preliminary paper suggests that EC legislation can be justified in dealing with clear cross-frontier problems, such as the depletion of the ozone layer. It is also acceptable where there is an obvious need to mobilise maximum financial and technical resources, as in EC research programmes.

But it also suggests that Brussels should weigh "the cost of [EC] inaction". In the sensitive area of trade infringement, it raises the questions: "Is it necessary to remove every distortion [to competition]? If not, at what point should the Community intervene to prevent a distortion, and in what sectors?"

EC officials rule out any idea that Brussels is about to let member countries control state aid, such as the case of the French government's injection of capital into its computer company, Bull, which the Commission is due to discuss next week.

However, they suggest that, in cases where one company complains that another is abusing a

Continued on Page 16
French clear hurdle, Page 2
Major to press for EC enlargement, Page 9

Labour set for victory in Israeli elections

Exit poll points to Rabin taking 47 out of 120 seats

By Hugh Carnegy in Jerusalem

ISRAEL'S Labour party appeared last night to have scored a stunning general election victory over the hardline Likud, paving the way for Mr Yitzhak Rabin to take over as prime minister and implement his promise to accelerate Middle East peace negotiations.

An Israel Television exit poll, taken minutes after the close of voting, predicted that Labour would win 47 out of the 120 seats in the Knesset, or parliament. Likud, led by Prime Minister Yitzhak Shamir, was set to win 33. Each party had 38 seats in the outgoing parliament.

The outcome, if confirmed by official results, would represent the most dramatic swing in Israeli politics since Likud came to power in 1977 proclaiming its right-wing ideology.

In previous elections TV exit polls have proved accurate and the news brought Labour supporters into the streets of Jerusalem, triumphantly singing the party election slogan "Israel is waiting for Rabin".

"At this point it looks very good," Mr Rabin said as he left his house for party headquarters.

The poll predicted that Labour could command a Knesset majority in alliance with Meretz, a coalition of small left-wing and pro-peace parties, and two small Arab parties. Its projected total of 64 would leave Likud in opposition for the first time in 15 years.

Labour was in coalition with Likud for two years after the 1988 election. Last night Mr Micha Harish, the general secretary of Labour, left open the possibility of Labour inviting Likud to form a grand coalition, saying this would be open to "everyone except the extreme right and the extreme left".

He said the decision would be up to Mr Rabin, who has often seemed to signal his preference for a broad coalition, in spite of strong opposition within his own party.

A victory of the scale predicted by the TV poll would be a resounding endorsement of Mr Rabin, who took over as Labour leader from Mr Shimon Peres earlier this year. Mr Rabin campaigned hard on the basis of his tough reputation to woo voters disillusioned by Likud's ambiguous approach to the peace process, its poor economic record and its party infighting.

"This vote is a big vote of confidence in Rabin and Labour and a big vote of no confidence in Shamir and Likud," said Mr Harish.

The main consequence of a clear Labour victory may be a shot in the arm for the sluggish peace process. Mr Shamir and Likud had flatly refused to contemplate yielding any of the occupied territories in return for peace and appeared lukewarm on conceding the initial stage of Palestinian autonomy.

Mr Rabin and Labour are committed to give up at least some of the occupied West Bank and Gaza Strip. They are willing to move forward quickly to an autonomy agreement. "We are going to have autonomy within nine months," said a senior Labour party MP last night.

French farmers drive tractors through a barrage of teargas thrown by riot police as they block the autoroutes around Paris in protest at EC farm reforms. They called off their action, accusing police of using "brutal" tactics. Page 2

IMF likely to advance Moscow $1bn

By John Lloyd in Moscow

THE International Monetary Fund, softening its demands on the Russian government, is expected to announce shortly that it will advance $1bn to Moscow to assist reform.

The sum, agreed last week in talks between Mr Yegor Gaidar, the Russian prime minister, and Mr Michel Camdessus, the IMF's director general, represents a highly qualified support for the government of President Boris Yeltsin.

It comes as powerful lobbies inside Russia are claiming that government programmes aimed at stabilising the country's finances are finished.

It also a sign that the IMF has softened its approach markedly in recent days after an internal review of its policy towards the former Soviet Union.

The Fund has come under concerted attack in Moscow where Mr Yeltsin, the Russian government and its advisers – especially Professor Jeffrey Sachs, the Harvard economist – have publicly accused it of an over-rigid and unresponsive attitude.

In recent weeks it has abandoned a number of conditions it had set down for the Russian government.

The IMF has:

- Accepted that oil prices will rise slowly over the next two years to world market levels (after insisting previously that they should be freed this year);
- Prepared to soften its insistence that the Russian budget be in balance this year without recourse to the $24bn aid package; and
- Stopped trying to force all former Soviet states to remain within the rouble zone.

However, the granting of the $1bn is not endorsement of the government's economic programme and negotiations will continue on the crucial areas – the budget deficit, foreign debt repayments and stability in the rouble zone.

The granting of $6bn out of the $24bn for use as a stabilisation fund remains contentious. The Russian government wants access to it soon, and would use it to support the rouble at a level of Rbs85 to the dollar.

The IMF believes that the $6bn can only be "granted" when the conditions are such that it does not need to be used – and does not believe these conditions are yet present.

David Waller adds from Frankfurt: Western bankers are likely to grant another 90-day deferral on repayment of the principal commercial debt of the former Soviet Union.

The bankers are meanwhile looking for evidence that Russia and the other members of the Commonwealth of Independent States are committed to paying back interest. The amount of interest paid in the first five months of the year was $170m out of $1.18bn due.

Breaking the ice, Page 3
Editorial Comment, Page 14
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Electrolux and AEG unit to co-operate on white goods

By Robert Taylor in Stockholm

ELECTROLUX of Sweden, one of the world's leading white goods manufacturers, is poised to enter an agreement with Germany's AEG Hausgeräte for joint production and development of household appliances.

The deal would initially cover washing machines, tumble dryers and dishwashers. The companies will continue to compete in the domestic appliances market under their respective brand names but the long-term aim is the emergence of integrated plants which will enable both companies to lower costs and increase efficiency.

AEG Hausgeräte had global sales totalling DM2.6bn ($1.66bn) last year and employs about 10,300 workers in 16 countries. AEG, its parent, is 80 per cent owned by Daimler Benz.

Under yesterday's proposed agreement Electrolux will acquire 10 per cent of the shares in AEG Hausgeräte with the option of increasing its holding to 20 per cent. In return, AEG will subscribe to Electrolux debentures which will be convertible into ordinary B shares.

In a joint statement, Mr Anders Scharp, chairman and chief executive of Electrolux, and Mr Ernst Stockl, chairman of AEG's board of management, said the proposed partnership would strengthen the competitive positions of both companies in the European market.

"We will develop a long-term partnership in manufacturing and product development, thereby creating economics of scale", they said. "To both AEG and Electrolux this arrangement will be strategic as a means to enable each party to meet the increasing competition from the US and Japan in the European domestic appliance market".

The two companies account for about 18 per cent of the German market in the household appliances they both manufacture. In other European markets like Spain, Italy, the UK, and Scandinavia, Electrolux is the dominant of the two.

"We have wanted a partnership for a long time", said Mr Leif Johansson, Electrolux's president. For the past two years, Electrolux supplied AEG with cold storage equipment.

"This is not a defensive move", Mr Johansson added. "On the contrary it is aggressive, helping us to keep the initiative".

White goods war, Page 20

CONTENTS

Danes revel in putting the Euro boot in

By Hilary Barnes in Copenhagen

"WHAT DO the Europeans think of us now?" one of Denmark's 5m giant-killers wanted to know at the news stand yesterday.

There is not one of them who is not walking nine feet tall after first telling Europe where to put the Maastricht treaty and then booting their way to the final of the European Cup soccer championships with a 7-6 victory over favourites and reigning European champions Holland in the semi-final in Gothenburg on Monday night.

The country has never had such an impact on Europe before, politically or in sport.

The Danish team was a last-minute entry to the championships, replacing the embargoed Yugoslav team days before the championships started. When Danish player Kim Christofte kicked the winning goal in a penalty shoot-out after a 2-2 draw after extra time more than 50,000 people poured into the streets in the city centre in joyous celebration. And, said police, it was joy untrammelled by rioting or hooliganism.

Spirits even rose at the Foreign Ministry, where officials have been sunk in a deep depression since the electorate voted down the Maastricht treaty in the June 2 referendum. One visitor said there was victorious singing in the corridors.

National pride after killing off the Maastricht pact is already boundless. From a 50.7 to 49.3 per cent vote against the treaty on June 2, opinion surveys show that the No vote has since soared to 60 per cent. Where it will end if the Danish soccer team beats Germany in the final in Gothenburg on Friday is anyone's guess.

● Danish shipbuilders and shipowners fear a drop in orders and jobs following the approval by the European Commission last week of a DM6bn ($3.70n) support programme for east German shipyards.

Mr Thorkil Christensen, chairman of the Danish Shipbuilder's Association, said the agreement might even lead to the closure of some yards.

French clear Maastricht treaty hurdle

By Ian Davidson in Paris

PRESIDENT François Mitterrand yesterday scored an important victory when parliament voted overwhelmingly to change the French constitution as the first step towards ratification of the Maastricht treaty on European union.

The vote passed off without disruption after farmers called off an attempt to blockade roads around Paris in protest at EC agricultural reforms which will lead to sharp cuts in farm prices. The radical farmers' group Co-ordination Rurale accused riot police of using "brutal" tactics to remove the roadblocks.

The decisive 592-73 vote by a joint parliamentary session at Versailles will be an important morale booster for Mr Mitterrand at the European Community summit in Lisbon at the end of this week. It may help offset the psychological effect of Danish rejection of the treaty earlier this month.

Ratification itself will be subject to a popular referendum in the autumn, but the size of yesterday's parliamentary majority suggests that most of the mainstream parties on the left and the centre-right will campaign for a Yes vote.

Only two political groups expressed systematic opposition to the constitutional revision: almost all the Communists voted against the revision; almost all the Gaullists refused to take part.

The Gaullists, deeply divided between those who are sceptical about the EC and those who are totally hostile to the Maastricht treaty, saved the appearance of party unity by walking out of the parliamentary session. They declared there was no case for a constitutional revision, since the Danish No vote had made the treaty null and void.

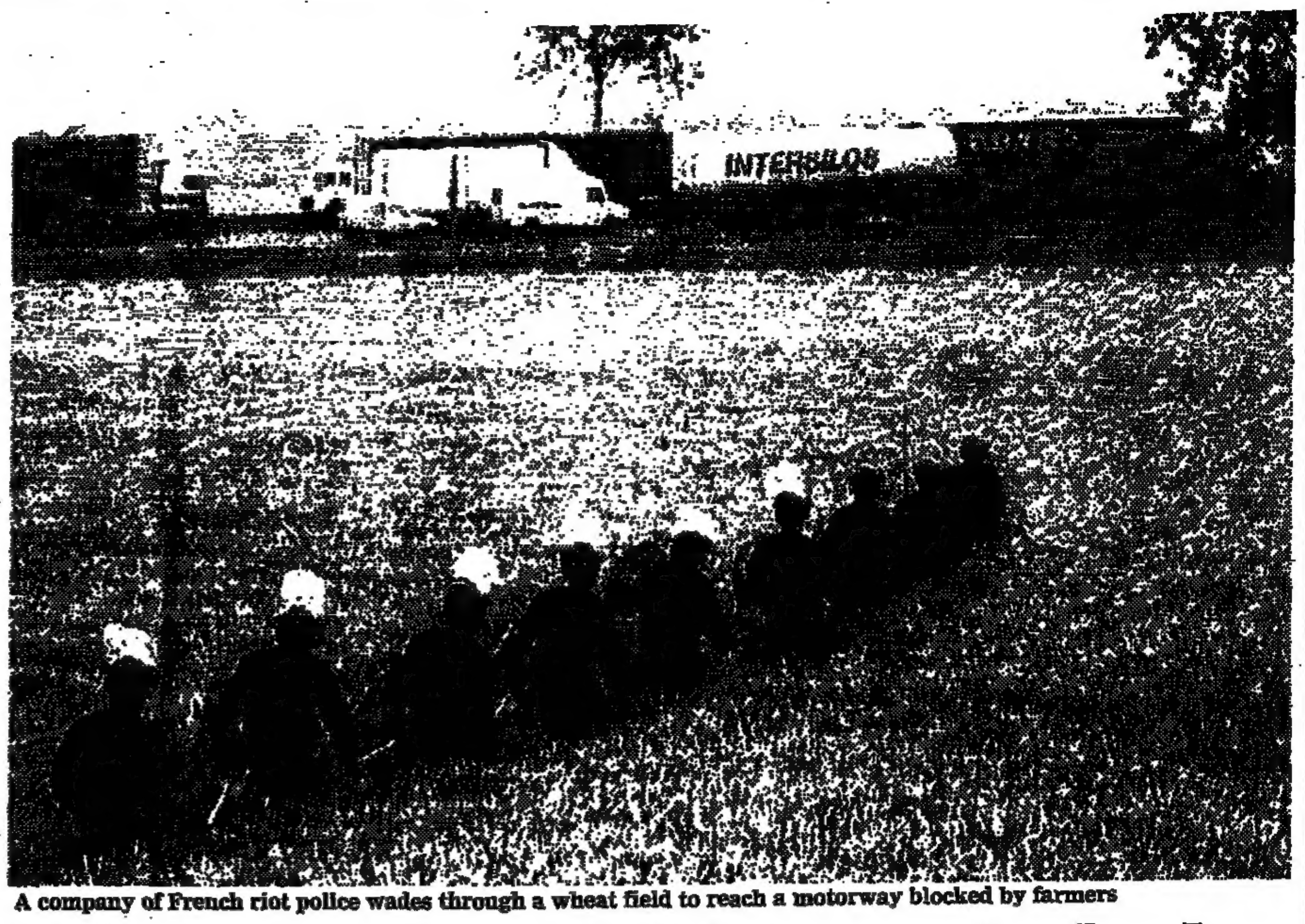
In practice, the Gaullist walk-out only magnified the scale of the government majority, which far exceeded the minimum three-fifths majority required. "We must not miss our rendezvous," said Mr Pierre Bérégovoy, prime minister, when he opened the special session of the two houses of parliament in Versailles. "Europe is union, and union is strength."

The most significant symbolic innovation introduced by the vote is that the EC is now part of the French constitution, in a chapter entitled: "Of the European communities and of European union."

The most important substantive changes are provisions allowing France to take part in economic and monetary union, admitting that French visa policy may be subject to majority voting in the Community, and permitting EC citizens resident in France to take part in French local elections.

The government has had to make two significant concessions to the conservative opposition parties. Voting in local elections will be a possibility, but not a right; and the French parliament will have increased rights to scrutinise Community legislation before the French government agrees to it.

Farmers struggle for survival, Page 26



A company of French riot police wades through a wheat field to reach a motorway blocked by farmers

UK hunts for working week deal

By David Gardner in Luxembourg

BRITAIN and France were yesterday attempting to broker a last-minute compromise over the 48-hour working week directive due to be put to a vote at today's meeting of labour and social affairs ministers in Luxembourg.

The UK is vehemently opposed to the directive but its 11 EC partners appear determined to achieve it. Mrs Gillian Shephard, the UK employment minister, was due to meet Ms Martine Aubry, the French labour minister, in Paris yesterday to discuss the issue.

The Portuguese presidency, at the behest of France and Germany, has offered Britain concessions which would allow the UK to delay introducing the 48-hour limit for up to 10 years, when the situation would be reviewed. This would be seven years more than the three years allowed to all member states for the introduction of new directives.

It would also give workers willing to work more than 48 hours the right to do so, while those unwilling to exceed the prescribed limit would get the full protection of the law. Employers would be obliged to keep records of both groups of workers, under the surveillance of national health and safety authorities.

The British government indicated on Monday it was resolved to vote against any measure which would oblige it to limit the working week, even in the future.

It was not clear yesterday that Britain's partners would press the issue and risk a new breach in Community unity ahead of Friday's Lisbon summit where EC heads of government will discuss the future of the Maastricht treaty for the first time since its rejection by Denmark on June 2.

Britain's EC partners were also considering issuing a declaration that they would not use the concessions granted to the UK.

Such a declaration, sharply delineating the labour market aspirations of the 11 from those of the UK, would replicate the division of social policy agreed at Maastricht – if only for a limited period.

But this first practical instance of Maastricht's agreement to disagree would depend on "the UK at least abstaining" on the working time directive, according to a senior EC official.

German interest rates hope dashed

By Quentin Peel in Bonn

MONEY supply growth in Germany was higher than hoped again last month suggesting further delays in relaxing the Bundesbank's high interest rate policy.

A provisional figure of 9 per cent for the M3 broad measure for May was announced yesterday, causing consternation among economists and market analysts. This compares with a corrected figure of 8.9 per cent for April.

The central bank blamed unusually strong growth in cash in circulation, in fixed-term deposits and continued strong growth in bank credit.

The figure leaves the main money supply measure, used as the key indicator of monetary stability in the German economy, well outside the "target corridor" of 3.5 to 5.5 per cent growth fixed by the Bundesbank for 1992.

David Waller adds from Frankfurt: Yesterday's figures led to a sharp drop in German government bond and bond future prices, with yields on the benchmark 10-year Bund climbing 4 basis points to 8.08 per cent. Expectations had been for a further slowdown in monetary growth from the high of 9.4 per cent in March.

Greece accused

Human rights group Amnesty International said yesterday that scores of people had been tortured or ill-treated at the hands of Greek police or prison guards, Reuter reports from London. The London-based watchdog published a report detailing some 35 cases of torture since 1986, where victims said they had been punched, beaten with clubs or given electric shocks.

SEC files charge

The Securities and Exchange Commission, the US securities industry watchdog, yesterday filed an insider trading suit against Mr Kurt Naegeli, a Swiss lawyer, in connection with the $1.6bn takeover of Combustion Engineering, a US company, by Asea Brown Boveri in 1989, Nikki Tait reports from New York.

The SEC alleges that Mr Naegeli was involved in "violative purchases" of Combustion shares and options.

Dutch brewery chief campaigns for a federal 'Eurotopia' divided into 75 states

Refreshing parts of Europe that are out of reach

MR Freddie Heineken, the eponymous chairman of the Dutch brewery group, has come up with a plan to refresh parts of Europe many politicians can't reach, writes Ronald van de Krol in Amsterdam.

He is trying to persuade Europe to convert itself into a federation of 75 states, each with a population of no more than 10m people. "Eurotopia", as Mr Heineken calls his plan, would be modelled loosely on the US and involve the break-up of most big countries into more manageable parts.

France would be split up into seven states, including a state of "Ile-de-France" for the Paris region.

The British Isles would be dissolved into 10 states. The new state of "Mercia", with Birmingham as its capital, would take its name from an early medieval kingdom. Greater London would form the nucleus of the state of "Essex". More controversially, the UK province of Northern Ireland would join the Irish Republic.

Mr Heineken, the flamboyant industrialist for whom a ransom of £7.2m was paid after he was kidnapped in 1983, has a flair for marketing and advertising. He concedes that his ideas, contained in a 17-page report published yesterday, are bound to be met with amazement. But the time has come to rethink Europe.

"The present set-up of nations is in many ways just as arbitrary as my ideas may seem," he writes. "Not only in Yugoslavia do we see movements for independence, but also in Scotland, Ireland, Wales, Catalonian regions, the Basque country, Middle Europe and so on."

The Heineken group, which Mr Heineken ran until he retired to the supervisory board in 1989, is used to thinking of Europe in terms other than that of the nation state. The company has traditionally differentiated between the beer-drinking culture of the north and the wine-drinking belt of the Mediterranean south, where it invested heavily in the 1960s.

The only areas to emerge whole from Mr Heineken's reshaping of Europe are Portugal and the Nordic countries. Even the Netherlands, with its present population of 15m, would be split in two.

The 75 states in "Eurotopia" should form a federation with common foreign, defence and monetary policies, Mr Heineken says. Tiny Monaco and Liechtenstein would "be non-voting member-states of the new Europe, not unlike the District of Columbia in the United States."

He acknowledges that details – such as the future of royalty – need to be worked out: "There is even scope to reassign some royal families presently without a formal role to be heads of newly formed regions," he says, citing the states of "Hannover," "Burgundy" and Navarre-Aragon

Gonzalez sends domestic message with choice of foreign minister

By Tom Burns in Madrid

THE APPOINTMENT of Mr Javier Solana as Spain's new foreign minister reveals a good deal more about the shifting power balance in the ruling Socialist party than any diplomatic initiatives planned by the Madrid government.

A longstanding member of prime minister Felipe Gonzalez's inner political circle and a physicist by profession, Mr Solana will be sworn in today to replace Mr Francisco Fernandez Ordoñez who has retired on grounds of ill-health after seven years in the government.

Mr Solana, who over the past decade has successively held the posts of minister of culture and minister of education, is the only genuine counterweight among Spain's top socialists to Mr Alfonso Guerra, the former deputy prime minister who as deputy leader of the party commands the party machinery.

Like both Mr Gonzalez and Mr Guerra, Mr Solana joined the then clandestine Socialist party as a student in the 1960s and together the three rapidly rose to the forefront of opposition politics at the tail end of the Franco dictatorship. Mr Solana was raised in Madrid where he attended elite schools before doing post-graduate research in the US.

At Mr Guerra's instigation, Mr Solana, 50, was barred from the Socialist party's executive two years ago and he has since come to represent the more liberal wing of the party that opposes the so-called *guerristas* entrenched in the party headquarters. Mr Solana's promotion to the Foreign Ministry not only highlights the growing estrangement between Mr Gonzalez and Mr Guerra. It also converts Mr Solana into a main contender to lead the government should Mr Gonzalez choose to stand down.

By asking Mr Solana to take on the Foreign Ministry, Mr Gonzalez has clearly stated his preferences. The signal was made all the stronger by the prime minister's decision to replace Mr Solana with Mr Alfredo Perez Rubalcaba, the secretary of state for education, who is an outspoken *guerrista* opponent, and to keep Mr Carlos Solchaga, the main architect of the government's confrontation with the unions, as economy and finance minister.

Solana: on party's liberal wing

Mr Guerra's camp had hoped that the resignation of Mr Fernandez Ordoñez would lead to a big cabinet reshuffle in which Mr Solchaga would leave the government.

The appointments follow a weekend closed-door meeting at the Socialist headquarters in which Mr Gonzalez, as party leader, allegedly issued a stern warning against what he viewed as the narrow sectarianism of the party executive.

Yesterday, Mr Solana said the thrust of Spanish diplomacy was well established and that "a new foreign minister did not mean a new foreign policy". In practise Mr Gonzalez, who over the years has increasingly relished his role as an international statesman, keeps a tight rein on policy.

Mr Solana can nevertheless be expected to be tougher than Mr Fernandez Ordoñez, his affable predecessor, when it comes to pursuing Spain's special interests in the EC. At the top of Spain's agenda for next weekend's Lisbon summit is the belief that the Community should be "deepened" before it is "widened" and that the cohesion funds agreed at the Maastricht summit last December should be honoured.

OBITUARY

Cassoni: manager who made it on the world business stage

MR Vittorio Cassoni, former chief executive of Italy's Olivetti computers and office equipment group and one of the most highly respected figures in the world computer industry, died in Milan on Sunday of a brain tumour.

Although only 51, Mr Cassoni, who began his career at IBM in Italy, progressed quickly through the industry, becoming in 1986 the head of the computers division at AT&T, the US telecommunications giant.

Mr Cassoni subsequently moved back to Olivetti, where he had formerly been head of US operations, to become chief executive in 1988.

His ambitions for the company coincided with one of the most turbulent periods in the information technology industry, when the problems of greater competition and technological progress were soon felt on Olivetti's earnings, and contributed indirectly to his departure from the group earlier this year.

There followed a radical restructuring which meant the virtual disappearance of the partly-overlapping divisions for product groups set up in 1989 by Mr Cassoni when he became managing director.

Mr Cassoni, who had undergone surgery for cancer in 1991, moved to a new post heading the office equipment activities of Xerox, the US computers and office equipment group, earlier this year. However an unexpected bout of ill health obliged him to leave his new position within a matter of days of arriving.

A tough but always fair boss, Mr Cassoni was one of only a handful of top Italian managers to make an impact on the world business stage, a position reinforced by his forthcoming manner and open attitude to the media.

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Ukraine and Russia break fleet deadlock

By Chrystia Freeland in Dagomys

UKRAINE and Russia yesterday ended months of tension with a decision to draw up a treaty normalising their relations and an agreement, in principle, on the division of the contested Black Sea fleet.

The first summit meeting of Mr Boris Yeltsin and Mr Leonid Kravchuk, the Russian and Ukrainian presidents, since the collapse of the Soviet Union, was held in the Black Sea resort of Dagomys yesterday. It follows a long-running dispute over the fleet and Ukrainian fears that Russia would seek to dominate the new state.

However, in a notably friendly atmosphere, the presidents vowed to work towards a broad political treaty that would entrench a new bilateral relationship. This was in sharp contrast to the CIS meetings, which have been characterised by friction and disagreement between the two states.

The presidents agreed, in principle, that the Black Sea fleet should be divided between the two states, in shares to be agreed, and that ports would be jointly used and maintained.

As Mr Kravchuk pointed out, this decision, which still leaves the prickliest problem of the actual division unresolved, marks a change in that it cuts the Commonwealth of Independent States' military structure out of the negotiations.

Despite the two presidents' assertions that the CIS will not perish, bilateral Russian-Ukrainian meetings, which are to become regular events, seem likely to replace the CIS as the arena in which disputes between the two largest former Soviet republics are resolved.

Headway was also made on the economic front, with agreement reached on a mechanism for the introduction of a separate Ukrainian currency and a quid pro quo shift to world trade prices.

However, the two Slavic giants skirted around other more contentious political disputes such as the Crimea.

Moldova youths flaunt the machines of war

By Chrystia Freeland, recently in Bendery

WHEN their armoured personnel carrier was disabled in the bloody fighting in Bendery, eastern Moldova, which claimed hundreds of lives over the weekend, Sergei, Slava and Sasha replaced it more casually than American teenagers getting a new set of wheels after a car accident.

"We just went to the 59th Division of the 14th Army, spoke with the local commander and he gave us this baby," said 21-year-old Sergei Zubkov, a fighter with the Trans Dnestr forces who are attempting to break away from Moldova and have won the help of the Russian army.

"The commander and the boys of the 59th Division all know us, so they gave us a new APC," he said, proudly banging the coffee-coloured metal sides of the vehicle he now drives.

Like many young men driving powerful new machines, Mr Zubkov is only too happy to offer admirers a lift.

Racing with him across the bridge over the Dnestr river - the most important strategic point in the region - is an oddly cheerful experience.

The boys generously offer a nibble of their food or a drag of the cigarettes they smoke in complete disregard for the brand new ammunition stacked high inside their carrier and present a few bullets as souvenirs.

The scene appeared to turn ugly when the APC pulled up to the bullet-ridden city council building in Bendery, which is at the heart of the bloody battle between the Slavic separatists and the forces of Moldova, whose population is of predominantly ethnic Romanian origin.

A square-jawed man toting a machine-gun emerged to provide cover against Moldovan snipers.

He turned out to be Mr Viacheslav Kogut, the mayor, and offered to talk for 10 minutes "because then the next attack is due to start".

Huddled in a crowded basement room where stockpiles of increasingly scarce bread vied for space with bandages, Mr Kogut's answers were peppered with grim questions from his assistants.

What to do with the hundreds of corpses rotting in the streets?

Bury them, was the no-nonsense answer.

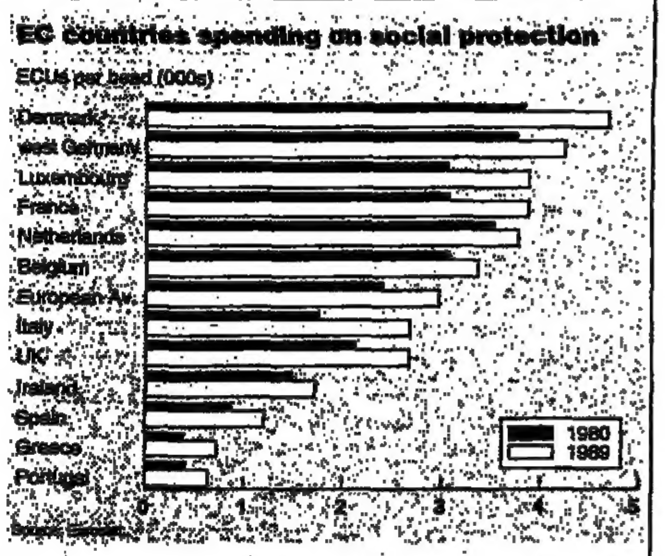
A desperate woman called wondering how to flee the city. "Walk across the bridge like everyone else," snapped the mayor, then slammed down the receiver and launched into a diatribe on the ways in which the Soviet regime had deprived its citizens of individual initiative.

The interview came to an abrupt halt when a fresh attack forced the building to be evacuated.

Sergei, Slava and Sasha were gone. But, more readily than a taxi in downtown London, two young drivers of another APC volunteered to drive back across the river.

A United Nations fact-finding mission will leave for Moldova towards the end of the week, a UN spokesman said yesterday, Reuter reports. The mission will be led by Mr Gilberto Schlittler, a senior Brazilian official in the UN department of political affairs.

An unidentified commander inspects Moldovan army reservists yesterday as they prepare to man fire positions near Bendery



Rise in French jobless strains benefit system

Employers and unions are counting the costs, writes **William Dawkins**

FRANCE is the latest of several industrialised countries to find that rising joblessness has put its unemployment benefit system under serious financial strain.

Employers and unions are haggling over how to prevent the collapse of their unemployment pay scheme, Unedic, the sole source of income for 1.7m jobless people.

Two-thirds funded by employers and one third by workers, Unedic is FFr15bn (£1.52bn) in the red and the deficit is growing by FFr1bn per month.

The Patronat employers' organisation which called the emergency talks, says that unless something is done, Unedic will run out of cash from October.

The Unedic crisis comes at a time of parallel difficulties in other countries: the US and Sweden are debating how to meet growing demands on their benefit systems; Spanish plans to cut state benefits have provoked protest strikes, and the German system is under considerable strain. France stands out for being the country where the unemployment benefit system has come closest to financial collapse.

Unedic was founded on a partnership principle sharing costs between companies and employees. It is not state-funded and, accordingly, Mrs Martine Aubry, the labour minister, has kept out of the talks beyond warning that the state cannot be expected to bail it out.

The scheme was devised at a time when French unemployment was around 140,000, a fraction of today's 2.9m. Over the past year, an extra 200,000 people have signed on to Unedic, as companies cut costs. Unedic expects to spend FFr105bn in 1992, up from FFr94bn last year. The partners agreed a rise in contributions last December, but this proved not nearly enough.

They face several options. First, the unions want employers' and workers' contributions raised to boost income. The Patronat argues that a further rise in France's already high social security costs is likely to worsen unemployment and increase the strain on Unedic. Mrs Aubry agrees.

Employers and unions appear less far apart on other options, where they are arguing details rather than principles. One possibility is for Unedic to make cash flow savings by delaying payments. Recipients of assistance now get their money three days after losing their jobs. The Patronat estimates savings of FFr200m per year for every day of delayed payments. The unions are likely to accept a short delay.

Another option is to reduce the amount of benefits per period of contribution. Currently, a worker who has been paying Unedic contributions for a year is entitled to 14 months of benefits, rising to five years of benefit for two years' contributions. When the Unedic benefits run out, the unemployed then claim state social security, already grappling with its own deficit.

The Patronat argues that French unemployment entitlements should come closer into line with contributions.

The final option, already being applied, is to increase the costs to companies of making redundancies among older workers. Around a quarter of Unedic's budget goes on benefits for those over 55, who have taken the brunt of the recent redundancies.

Man in a Ferrari wants Australia in overdrive

Conservative opposition leader John Hewson thinks he can win the next election, writes Kevin Brown

ASK AN Australian what he knows about Mr John Hewson, leader of the conservative opposition, and the answer will usually come in two parts: he drives a Ferrari, and he thinks he can win a federal election by promising to introduce a new tax.

It is an image which has been ruthlessly exploited by Mr Paul Keating, the embattled Labor prime minister, who never misses an opportunity to depict Mr Hewson as a rich dilettante who wants to raise taxes for ordinary people.

Yet Australians are becoming increasingly aware that there is more to Mr Hewson than meets the eye. For one thing he seems a bit eccentric: he doesn't so much drive a Ferrari as keep one in his garage, mainly because he admires the marque's sense of style and engineering efficiency. Mr Keating, himself a wealthy man, has a similar passion for French Second Empire clocks.

Mr Hewson hails from the same working class suburbs in western Sydney as Mr Keating. Unlike the prime minister, who left school at 14 and graduated to Labor politics via a pop group, Mr Hewson gained a PhD in economics and worked as a university teacher and merchant banker before entering parliament. However, it is his decision to commit the opposition to the introduction of a 15 per cent goods and services tax (GST), modelled on a European-style value added tax, which has attracted the heaviest fire from the government artillery.

Mr Keating's portrait of a callous opposition leader unable to grasp the human impact of his computer-driven economics has had some effect, even though the prime minister's credibility is reduced by his own failed attempt to introduce such a tax in 1985.

Why, many wonder, did Mr Hewson not simply sit back and wait for Labor's tired and dispirited government to collapse?

The answer seems to be in two parts. First, although Labor appeared to be in deep trouble at the end of last year, there was no guarantee that the government would continue to fade until the election, which must be held by next June.

The conservatives lost the last election in 1990 in spite of being widely expected to win, and a negative strategy could have allowed that to happen again. Indeed, Labor's chances have improved since Mr Keating replaced Mr Bob Hawke as prime minister in December.

Mr Hewson, who leads the urban-based Liberal Party, also has to bear in mind the capacity of the National Party, his rural-based coalition partner, to self-destruct under pressure. National Party indiscipline cost the conservatives the 1987 election, when Sir Jo Bjelke-Petersen, the former Queensland premier, split the vote by mounting an independent campaign.

Hewson: thinks his tax promises will make him prime minister

Furthermore, Mr Hewson was convinced when he took over as opposition leader in 1990 that voters were sick of the conservatives' opportunistic changes of policy since the coalition lost power in 1983. In 1990, for example, voters went to the polls unsure what opposition policy was in the important areas of health and industrial relations. The result was "Fightback!", a comprehensive policy statement which deliberately commits a coalition government to a detailed programme which leaves little room for doubt about what the conservatives represent.

Under the coalition, protective tariffs would be virtually eliminated, the centralised industrial relations system would be abandoned in favour of collective bargaining, the government would close or privatise most of its commercial activities, and tax reform would switch the emphasis from direct to indirect taxes.

The coalition would also promote the development of Australia's mineral assets, one of its main areas of comparative advantage, by reducing the delaying power of environmental and Aboriginal heritage lobbies, and removing restrictions on uranium mining. At the macro-economic level, there would be moves towards an independent central bank in an attempt to lock in low inflation. It adds up to a radical shift to the free market which would speed up and extend the tentative moves away from protection and regulation.

Mr Hewson describes "Fightback!" as an attempt to address interrelated issues comprehensively, rather than through the piecemeal initiatives which have characterised much of Labor policy-making.

"It is radical, but people have very widely accepted that there is a need for a pretty comprehensive change in Australia," he says. "I have always believed that good economics is good politics, and that if you advocate the right policies it is very hard to knock them over."

Nevertheless, Mr Hewson is painfully aware that the package stands or falls on his ability to communicate the core message that the GST element is essential, and that voters will be compensated. He says there is widespread understanding that direct taxes will be reduced for most taxpayers, while the coalition will also abolish seven existing indirect taxes, including payroll tax, wholesale sales tax and petroleum excise tax.

The opinion polls appear to bear out this interpretation. Labor has recovered strongly since Mr Keating took over as prime minister but has been unable to shake the coalition's lead. Hearteningly for Mr Hewson, support for Labor has declined recently in the face of corruption allegations and slower economic growth.

"Fightback!" has already claimed the significant scalp of Mr Hawke, who was ousted because of his failure to respond convincingly to the coalition challenge. Mr Keating has proved a harder nut for the opposition to crack, but Mr Hewson affects a growing confidence that it can be done. "People think Hewson has a plan for Australia, and that is what they want," he says. "Keating is running scared because he knows that we have the policies to do the job. All you get with Keating is a lot of colour."

Bosses can restrict holiday time

Employees' lot dealt blow by Japanese court

By Stefan Wagstyl in Tokyo

THE Japanese Supreme Court yesterday rejected an appeal from a company worker who protested about his employers' attempts to cut short his holidays.

The judgment was widely seen as a setback for efforts to cut working hours, reduce unpaid overtime and generally improve the lot of the Japanese company employee. Trade union organisations expressed dismay about the court's verdict, saying it went against the trend of current thinking.

The case concerns Mr Toshiaki Yamaguchi, a journalist who covered science and technology for Jiji Press, a news agency. In the summer of 1980, he wanted to take a 32-day holiday, including 24 days' paid holiday, to go to Europe to study the nuclear industry.

Jiji did not dispute Mr Yamaguchi's holiday entitlement, but declined to allow him to take more than 15 days off consecutively. When Mr Yamaguchi took 30 days off, he was reprimanded and fined with a cut in his winter bonus.

Mr Yamaguchi claimed Y750,000 (£3,190) in compensation and took his claim to the courts. When the Tokyo District Court rejected his claim, he appealed to the High Court, which upheld his suit and ordered Jiji to pay Mr Yamaguchi compensation. The court ruled Mr Yamaguchi had a right to take a long holiday. It noted Mr Yamaguchi's absence did not disrupt the work of his section since he had made efforts to arrange for other journalists to cover for him.

But the Supreme Court yesterday cancelled the compensation order, saying that the timing of a long holiday should be decided at an employer's discretion. Employees who planned long holidays should take their employers' interest into account in deciding the time and length of long holidays, said the court. If they did not, an employer had the right to intervene and instruct an employee to change his plans. Jiji had not exercised this right unreasonably. The court sent the case back to the High Court for further deliberation.

Commenting on the case, Nikkeiren, a leading employers' federation, said the judgment "couldn't have been better", since it confirmed that employees were required to consult employers if they planned long holidays.

But Mr Seigo Yamada, secretary general of Rengo, a trade union confederation, said the judgment ignored the fact that an individual's will should be treated with maximum respect as far as the timing and duration of holidays was concerned.

Mr Yamaguchi, who still works for Jiji, said the Supreme Court had lost an opportunity to establish that Japanese had the right to take long holidays like westerners. He said he had taken a month-long holiday every year and would continue to do so until he retired.

Employees are so busy they take only an average of eight days' holiday

Most Japanese company workers would be delighted to take holidays even half as long as Mr Yamaguchi's. Large Japanese companies, including financial and industrial groups, allow staff an average of 15 days' paid leave a year. But employees are so busy that they take only an average of eight days' holiday.

The law protects workers' rights to take paid holidays, but many people surrender their entitlements "voluntarily" for fear of pressure from colleagues. For similar reasons, workers "voluntarily" count sick leave as holiday.

● Japan will go to the polls on July 26 in nationwide elections for the upper house of parliament, the government announced yesterday, Reuter adds from Tokyo.

It will be the first big electoral test for Prime Minister Kiichi Miyazawa, who took office last November.

His Liberal Democratic Party (LDP) will be looking to do better than in 1989 when, with sex and corruption scandals tainting the cabinet and party leadership, it lost control of the upper house for the first time since 1955.

But the conservative, probusiness LDP, in unbroken power now for 37 years, retains its stable majority in the more powerful lower house.

Japan will lend more to India this year

JAPAN has promised to extend loans worth Y111.91bn (£476.21m) to India in the year ending next March, a Japanese Foreign Ministry official said yesterday, Reuter reports from Tokyo. This represented a 5 per cent rise from the Y106.59b in loans to India a year earlier, he said.

The loans to be extended in 1992-93 will be used for various public works projects, the ministry official said.

Mr P.V. Narasimha Rao, India's prime minister, arrived in Japan on Monday for a five-day official visit. He and Mr Kiichi Miyazawa, his Japanese counterpart, met yesterday for discussions on various international issues.

The two men also agreed to hold talks on promoting the non-proliferation of nuclear weapons, although details have yet to be decided, the official said.

India, which exploded a nuclear device in 1974, has repeatedly stressed that its nuclear programme is peaceful. However, it has refused to sign the Nuclear Non-Proliferation Treaty (NPT) which it believes discriminates in favour of existing nuclear powers. It has said it will not change its position at least until 1995 when the treaty is reviewed.

India has also said it also objects to a US-backed proposal for a five-power conference to create a zone free of nuclear weapons in south Asia, based on the belief that nuclear disarmament is a global problem.

Mr Rao repeated India's objection to signing the NPT; his Japanese host suggested New Delhi give the matter further consideration.

Hong Kong court clears seven of corruption

By Simon Holberton in Hong Kong

THE Hong Kong stock exchange corruption trial ended dramatically yesterday when the seven men charged were found not guilty after nearly two days of deliberation by the jury.

The High Court trial, which sprang from investigations into the conduct of Mr Ronald Li, the former head of the Hong Kong Stock Exchange, casts doubt over similar charges to which Mr Li last year pleaded guilty.

It is unclear, however, whether the verdict will affect the four-year prison sentence he received in October 1990 for soliciting preferential allocations of shares in companies due to be listed on the exchange.

In the trial just ended, six defendants were charged with accepting or soliciting preferential allocations of shares. The seventh, Mr Li's son Alfred, was charged with aiding and abetting the other defendants. On Saturday, Mr Justice Mortimer, told the jury that a ruling by the Appeal Court concerning the application of the colony's Bill of Rights had altered the basis upon which they were to judge the allegations against the six.

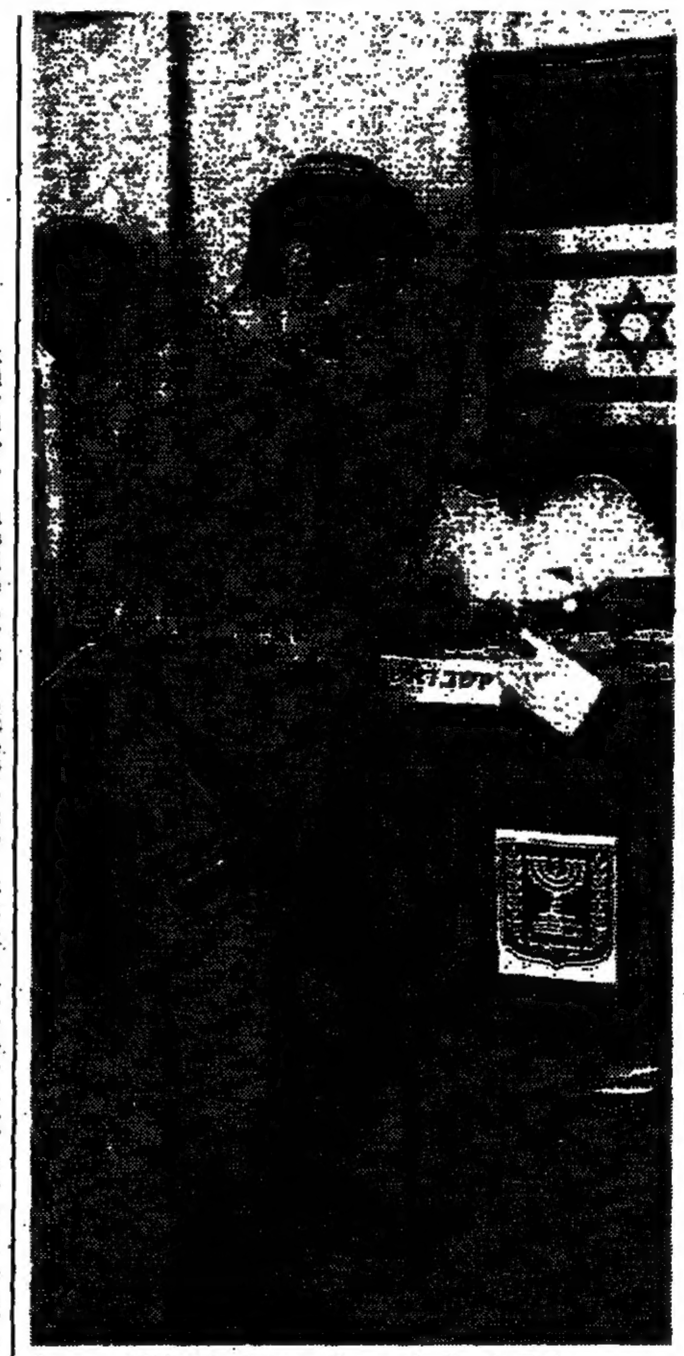
The Appeal Court removed the offence of unlawful possession from the colony's law after it found that it was inconsistent with the Bill of Rights ruling that a person is innocent until proven guilty.

The Appeal Court ruling meant that the defendants no longer had to prove they had permission, lawful authority, or reasonable excuse, to accept the shares.

Ethiopian faction quits government

One of Ethiopia's main political factions, the Oromo Liberation Front, said yesterday that it was withdrawing from the interim government formed after the overthrow of the Mengistu regime last year, Reuter reports from Addis Ababa.

The OLF move came after it boycotted elections after disputes with the dominant Ethiopian People's Revolutionary Democratic Front.



An armed Israeli settler voting yesterday in Hebron

ISRAEL'S WAY OF VOTING

- Voter turnout in Israel is usually around 80 per cent.
- Of the 3.4m eligible voters, more than 500,000 are casting ballots for the first time. These include more than 300,000 immigrants, most of them from the former Soviet Union.
- About 394,000 eligible voters are Israeli Arabs.
- The 1.75m Palestinians of the West Bank and Gaza Strip are ineligible to vote. They have been banned from Israel during election day. Most of the 150,000 Arabs of East Jerusalem who refused Israeli citizenship are also disqualified from voting.
- Voters may choose only one of 25 parties contesting the 120 Knesset seats. Electoral rules say a party must receive 1.5 per cent of the vote to qualify for a seat in parliament. This eliminates many smaller parties. Those that qualify split the 120 seats based on the number of votes they receive. In the 1988 election, a seat was worth 18,563 votes. This year the forecast is about 22,000 votes.
- Israeli MPs do not represent any geographical constituency.

State of the parties in outgoing parliament

Likud	38
New Liberal Party	3
Tehiya	3
Moledet	2
Tsomet	2
United Tora Jewry	7
National Religious	5
Shas	5
Geulat Yisrael	1
Labour	38
Meretz	10
Tikva	1
Dem. Fr. for Peace & Equality	3
Progressive List for Peace	1
Arab Democratic	1

Herzog urges electoral reform

By Hugh Carnegy in Jerusalem

ISRAEL'S President Chaim Herzog, speaking as the country voted in a general election, yesterday called for a change in the Jewish state's fragmented parliamentary system to produce stable government.

He wants to end the situation whereby any of a dozen small parties which manages to gain a foothold in parliament can hold the larger parties to ransom in intense coalition bargaining.

The bargaining will commence today and, on past record, could last for weeks before an administration is formed. Israel's form of pure proportional representation, with no system of local constituency representation, meant neither the ruling Likud party nor the opposition Labour party would win a majority in yesterday's vote.

Labour was hoping opinion poll predictions giving it a lead over the Likud would prove correct, giving Mr Yitzhak Rabin, the party leader, the advantage in the process of building a coalition from among some 15 parties expected to win seats in the Knesset.

Mr Rabin, committed to trading some of the occupied territories in exchange for peace, wants to accelerate peace negotiations in which the Likud, under Prime Minister Yitzhak Shamir has rejected the "land for peace" formula demanded by the Arab side.

Mr Herzog complained as he cast his vote: "This is the sixth time in nine years that I am going through this experience of imposing or granting the job of forming a government on someone." An amendment to the system allowing for direct election of the prime minister, in parallel with the party poll, is to take effect in the next election. But Mr Herzog said reform should go further.

India faces battle over presidency

By K K Sharma in New Delhi

THE CONTEST for the post of the president of India – normally a straightforward election for a ceremonial position – seems to be turning into a bitter battle between the ruling Congress party and its opponents.

The Congress party last week nominated Mr Shankar Dayal Sharma, the country's vice-president, for the election in July to replace the incumbent, Mr R. Venkataraman.

In doing so, Mr P V Narasimha Rao, the prime minister and party leader, did not hold consultations with the opposition parties, abandoning his proclaimed stand of being a consensus seeker. The opposition retaliated by seeking a candidate to oppose Mr Sharma, but in so doing exposed its deep political divisions.

First, the opposition insisted that it should be allowed to decide who the vice-president should be if Mr Sharma were elected. Then, Mr V P Singh, the former prime minister and leader of Janata Dal, created controversy by maintaining that the next president should belong to what are known as the scheduled castes (harijans) or a tribe considered backward under the constitution.

The opposition parties found it difficult to find a common candidate despite a series of consultations they have held among themselves. Mr G G Swell, a former deputy speaker of the Indian parliament and a former diplomat, has found the most support and he is expected to run against Mr Sharma. He is from a tribal background in the north-eastern state of Meghalaya.

Mr Swell is, however, not supported by the Marxists and Left parties who have welcomed Mr Sharma's choice. In the meantime, another opposition leader, Mr Ram Jethmalani, a lawyer, has left the Janata Dal for failing to nominate him for the post and has declared his own candidature. Opposition parties are continuing their talks and yesterday the Bharatiya Janata Party, the Hindu revivalist party which is the largest opposition grouping, declared its support for Mr Swell. A hard-fought contest now appears inevitable.

The president is chosen by an electoral college made up by the two houses of parliament and the state legislatures. While opposition differences strengthen the chances of Mr Sharma, his election is by no means a certainty because the Congress is in a minority in parliament and a number of states are ruled by non-Congress parties.

LEGAL NOTICES

In the High Court of Justice No. 005138 of 1992 Chancery Division

IN THE MATTER OF ROBUR ENVIRONMENTAL COMFORT SYSTEMS LIMITED

- AND -

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 20th May 1992 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above-named Company from £222,100 to £20,100. AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr Justice Millett at the Royal Courts of Justice, Strand, London, WC2A 2LL on Monday the 6th day of July 1992. Any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the share capital should appear at the time of hearing in person or by Counsel for the purpose. A copy of the said Petition will be furnished to any person requiring the same by the under-mentioned Solicitors on payment of the regulated charge for the same.

Dated this 18 day of June 1992.

LOVELL WHITE DURRANT, 65 Holborn Viaduct, London EC1A 2DY.

Solicitors for the above-named Company.

IN THE MATTER OF TECHLINK COMPUTER SERVICES AND IN THE MATTER OF THE INSOLVENCY ACT 1986

Registered number: 2547018. Former Company name: Chipsock Limited. Nature of Business: Computer Maintenance. Trade Classification: 38. Date of appointment of administrative receivers: 13 June, 1992. Name of person appointing the administrative receivers: National Westminster Bank Plc. Joint Administrative Receivers: J M Iredale and C J Hughes. Address: Cork Gully, 9 Greyfriars Road, Reading, Berkshire RG1 1JG.

MEETING OF CREDITORS

Pursuant to Sections 98, 99, 100 and 101 of The Insolvency Act 1986

FLEETKING LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 98 of The Insolvency Act 1986, that a meeting of the creditors of the above-named Company will be held at The Westminster Chamber of Commerce, 177 Regent Street, London W1, on 1st July 1992 at 12.00 noon for the purposes provided for in Section 98 et seq.

A list of names and addresses of the above Company's Creditors can be inspected at the offices of Latham Crossley & Davis, 45 Conduit Street, London W1R 9FB, between the hours of 10.00 a.m. and 4.00 p.m. on the two business days preceding the Meeting of Creditors.

Dated this 16th June 1992

L Lucas-Smith Director

MEETING OF CREDITORS

Pursuant to Sections 98, 99, 100 and 101 of The Insolvency Act 1986

CLASSIC FILMS LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 98 of The Insolvency Act 1986, that a meeting of the creditors of the above-named Company will be held at The Westminster Chamber of Commerce, 177 Regent Street, London W1, on 2nd July 1992 at 12.00 noon for the purposes provided for in Section 98 et seq.

A list of names and addresses of the above Company's Creditors can be inspected at the offices of Latham Crossley & Davis, 45 Conduit Street, London W1R 9FB, between the hours of 10.00 a.m. and 4.00 p.m. on the two business days preceding the Meeting of Creditors.

Dated the 17th June 1992

P. Cowan, Director

PERSONAL

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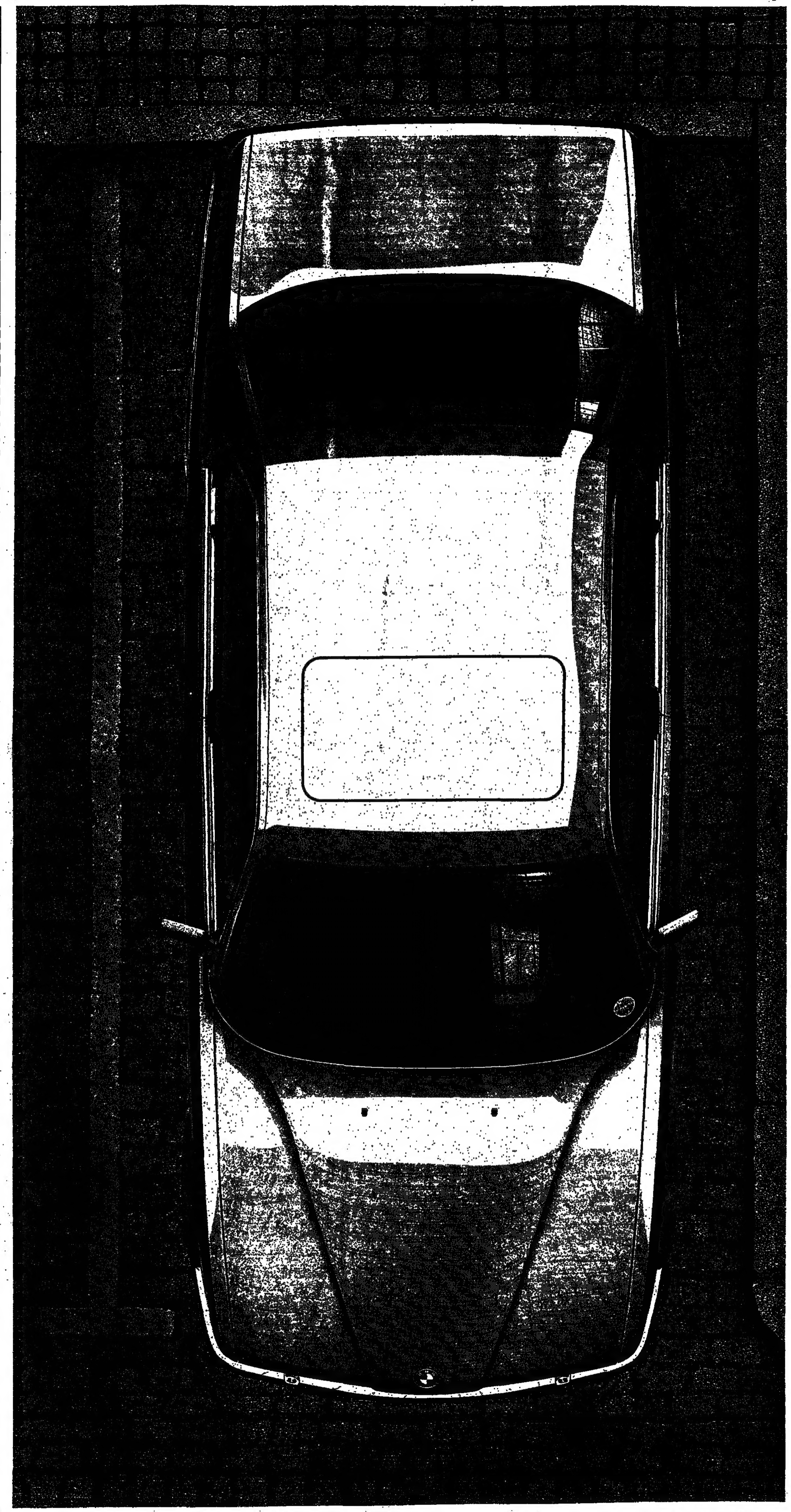
OBITUARY

WINSPEAR ON 20TH JUNE 1992 Arthur Chirnside died peacefully at home. Dearly loved husband of Joan, father of Helen & Diana, grandfather of Michael, David, Gemma & James. Private funeral. Memorial service to be held later. Floral tributes to: Doves Funerals, 1 Simpsons Road, Bromley, Kent BR2 9AP. Tel: 081 460 1888. By 12 Noon Thursday 25th June.



NEWS: AMERICA

Election rivals condemn Perot 'investigations'

By Jurek Martin in Washington

PRESIDENT George Bush and Mr Bill Clinton united yesterday to condemn private investigations of prominent public figures allegedly ordered by Mr Ross Perot, the likely independent presidential candidate.

Mr Bush took umbrage at the reports of Mr Perot's investigations, describing them as "beyond the pale" in a *television* programme to be shown this week. Mr Clinton, the prospective Democratic candidate, yesterday attacked the alleged investigations into the president and his family.

However, Mr Tom Luce, a senior aide to Mr Perot, dismissed as distortions reports that the Texas businessman had ordered the probes. "There were no investigations, no detectives." The charges against Mr Perot came "from the people who have specialised *in saying* 'we'll do whatever it takes to win'," he said.

Vice-President Dan Quayle, who *has* led *the recent* Republican assault on Mr Perot's penchant for activities he says show contempt for the law, chipped in by pointing out the danger to civil liberties of a President Perot in charge of the "IRS, the FBI and CIA".

The particular bone of contention is a *Washington Post* report on Sunday covering alleged Perot-inspired probes into the business dealings of the president, his family and associates. It highlighted an incident in 1988 when Mr Perot personally turned over to the newspaper documents relating to a $48m (£25.9m) Pennzoil lease transaction said to have benefited those close to the then vice-president.

Mr Luce said yesterday *this* was "a highly questionable transaction," details of which had been given to Mr Perot and passed on to the newspaper as a matter of public interest. No investigation of Mr Bush has been ordered, he added.

However, other reports have also highlighted examples of Mr Perot's alleged proclivity to order background checks on those who might have displeased him.

This *latest* controversy was not apparently a factor in a New York Times poll yesterday, which reported a doubling in Mr Perot's unfavourable rating compared with a previous survey in April. His comments that wealthier US pensioners should give up social security benefits went down with a thud.

However, the poll also found *Mr Bush and Mr Clinton* in worse shape. Approval for the president's handling of the economy was lower even than the depths plumbed by President Jimmy Carter at the same stage in 1980, while the Democrat's capacity for strong leadership was viewed as lower than either Mr Bush or Mr Perot.

The net result was that four out of 10 people surveyed *expressed dissatisfaction* with the three choices before them.

Ross Perot: turned over documents relating to a $48m Pennzoil lease transaction

Industrial disputes could trigger US rail chaos

By Nikki Tait in New York

THE US rail system was braced yesterday for possible coast-to-coast industrial action which could bring chaos to both freight and passenger services. Talks between rail unions and operators were continuing up to a midnight deadline yesterday.

Amtrak, which runs passenger services across *the US, had already* cancelled about 50 overnight runs, to prevent passengers being stranded.

It was also refusing to take long-distance reservations for today and tomorrow and negotiating stand-by arrangements with bus companies and airlines. Greyhound, the largest long-distance bus operator, said it had agreed to accept Amtrak tickets on all routes, while *special* arrangements had also been made between Amtrak and USAir.

At issue are three separate union-management negotiations, all attempting to establish new labour contracts. *The first centres on talks between* the International Association of Machinists and the freight railroad industry generally; the second concerns Conrail, one of the largest freight operators and its track workers; the third involves Amtrak and half a dozen unions.

If strike action is called it is unclear whether it would occur in all three *disputes, or just one. A strike by the* IAM against the freight operators would be the most damaging, with the *potential to shut down freight traffic* nationally.

However, Conrail alone serves 14 *states and about half the freight moved* in the US starts or ends on Conrail track. A strike against Amtrak would badly disrupt commuter traffic in metropolitan areas on the east coast – such as Boston, New York and Philadelphia.

Congress has special powers over the rail industry which allow it to enforce labour settlements – authority it has used as *recently* as *last year*. Union supporters allege that the railroad operators are anxious to incite strike action in order to drag Congress into the dispute.

It is likely Congress will step in if a strike is called. President George Bush has met Mr Andrew Card, the new transport secretary, and both signalled that the administration was poised to pressure Congress to intervene.

Clinton sets tax sights on foreign companies

The presidential hopeful's new economic plan selects a tempting target, writes George Graham

FOREIGN companies have always been a tempting target for US politicians seeking to raise new revenues without taxing their voters more heavily.

Governor Bill Clinton, the Democratic party's presumptive presidential candidate, has now joined the chorus of politicians who claim foreign companies evade US taxes by distorting the transfer prices at which they ship goods to their subsidiaries in America.

In his new economic programme, Mr Clinton says he wants to raise $45bn (£24.3bn) over the next four years by "cracking down on foreign companies that prosper here and manipulate tax laws to their advantage".

His proposals on transfer pricing echo those contained in a bill submitted jointly by Mr Dan Rostenkowski and Mr Bill *Gradison*, the Democratic and Republican leaders of the House of Representatives ways and means committee.

The changes set out by Mr Rostenkowski and Mr Gradison are designed to pay for some $11bn of tax breaks for US-based multinational companies, *but also* play along with a strong current of congressional hostility to foreign, especially Japanese, companies.

The measures have provoked fierce international opposition both because of the additional tax burden they would create for some foreign companies, and because in several instances *they conflict* with the US's bilateral tax treaties.

Mr Rostenkowski and Mr *Gradison have made it clear* they do not plan to bring their bill forward in the current *session of Congress, but they* intend to gauge the degree of support or opposition to individual components to help them put together a package next year. With Mr Clinton *signing on*, foreign companies are even more concerned that these measures could be carried in the next Congress.

Sir Robin Renwick, the British ambassador to the US, has complained to Mr Nicholas Brady, Treasury secretary, about the Rostenkowski-Gradison proposals, and to warn they could, if passed, lead to pressure for retaliation. *Other* European countries have also registered their objections with Treasury tax policy officials.

The Rostenkowski-Gradison bill proposes to tax foreign-owned companies operating in the US as if their profit margin on gross receipts were at least three quarters of the industry average, regardless of whether or not they in fact made a profit. This measure is prompted by congressional suspicions that foreign companies artificially lower their US profits by manipulating transfer prices with their subsidiaries.

The transfer pricing measure has possibly aroused the most vigorous opposition from foreign companies and governments.

The German parliament's finance committee has already taken issue with current US treatment of transfer pricing – which many tax professionals complain operates under the scarcely veiled assumption *that all foreign companies are* out to cheat the Internal Revenue Service (IRS), and ignores *differences in profitability* between a company which actually produces and sells *goods and one which merely* acts as an importing conduit, without itself adding any *value. Companies* would lose at both ends as most countries would not allow them to deduct tax levied by the US on their hypothetical profits.

The real purpose of the measure, however, is to coerce companies into negotiating transfer pricing arrangements with the IRS.

Congressman Duncan Hunter of California has led the assault on foreign corporations. On the intellectually dubious grounds that all companies ought to be making a profit of at least 9 per cent on *assets* – or else they would not bother to invest in the US – he claims foreign companies are *cheating* the US Treasury of more than $30bn a year.

Mrs Shirley Peterson, IRS *commissioner*, is more circumspect; although she says there may be some income shifting, she *estimates the* maximum tax loss at $3bn.

Other measures in the Rostenkowski-Gradison package, however, are also provoking international annoyance.

They include:

- Excise taxes levied on reinsurance premiums paid to a *foreign company to be* raised from 1 per cent to 4 per cent, and new compliance rules to be *imposed*.
- Benefits under a US tax treaty with another country to be limited to qualified residents of that country. For example, a UK company with Dutch ownership would not be allowed to claim zero withholding under the UK-US tax treaty.

The US has written a similar limitation of benefits clause into some bilateral treaties *it has recently* renegotiated, but this measure would impose the limitation regardless of what the treaty said.

- Foreigners who hold 10 per cent or more of the stock of a US corporation to be taxed in the US on the capital gain, if they sell the stake. This clause, *however, would not override* any bilateral treaty provisions.

The reinsurance excise tax *proposal is causing* particular concern to British companies as, in current practice, they are exempt *from* the levy. "I think it's going to hit hardest at Lloyd's," said Mr Bruce Lassman, head of US tax affairs at accountants Ernst and Young in London.

Overseas governments, on the other hand, are more irritated by what they see as politicians' latest attempts to milk foreign companies because they influence fewer votes.

"Every year it's the same. Because of their domestic problems, they cannot find revenue raisers without alienating one lobby or another, so they hit on the foreign companies," complained a Washington-based diplomat.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re.
MAXWELL COMMUNICATION CORPORATION plc, et al.,
Debtors.

Chapter 11.
Case No. 91 B 15741 (TLB)
Jointly Administered

NOTICE OF SALE OF 100% OF THE ISSUED CAPITAL OF MC ITALIA

PLEASE TAKE NOTICE, that on July 22, 1992 at 2:00 p.m. or as soon thereafter as counsel can be heard (the "Hearing Date"), *the Joint Administrators of Maxwell Communication Corporation ("MCC") and Teadclass Limited ("Teadclass"), debtors and* debtors in possession will move before the Honorable Tina L. Brozman, United States Bankruptcy Judge, in Room 621-2 of the United States Bankruptcy Court, United States Customs House, 1 Bowling Green, New York, New York 10004, pursuant to Sections 363(b) and (f) of Title 11, United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code"), and Rules 2002, 6004, 9007 and 9008 of the Federal Rules of Bankruptcy Procedure, for entry of an order authorizing them to sell 100% of the issued capital (the "Shares") of Maxwell Communications Italia SRL ("MC Italia"), *free and clear of all liens, claims and encumbrances,* to Bain Gallo Cuneo Investments, Bain Capital, and the De Agostini Group (the "Investors") for the consideration and upon the terms and conditions set forth in, a letter agreement dated May 27, 1992 (the "Letter Agreement") between the Joint Administrators and the Investors, approved by an Order of the Bankruptcy Court for the Southern District of New York entered on June 18, 1992 (the "Order"), subject to the receipt and acceptance prior thereto of a higher and better bid as provided herein.

PLEASE TAKE FURTHER NOTICE, that the Letter Agreement provides that the Investors shall purchase the *Shares for the* Consideration (as defined in the Letter Agreement), which amount is subject to certain reductions, as set forth in Clause 2 of the Letter Agreement.

PLEASE TAKE FURTHER NOTICE, that copies of the Application of the Joint Administrators relating to the sale of the Shares and the Letter Agreement, and the exhibits annexed thereto (including the Letter Agreement) are on file with the Clerk, United States Bankruptcy Court, United States Customs House, 1 Bowling Green, New York, New York 10004, and may be examined by any and all interested parties at any time during regular business hours. *Additional information can be obtained from counsel to the* Joint Administrators listed below.

PLEASE TAKE FURTHER NOTICE, that all interested bidders, if any, with competing offers to acquire the Shares must submit *bids which shall comply with the following requirements:*

(a) all bids must be in writing and submitted to the Joint Administrators, Price Waterhouse, No. 1 London Bridge, London SE1 9QL, ENGLAND, Attention: Clive Carver, before noon London time by no later than June 28, 1992 (the "Bid Closing Date");

(b) all bids ("Qualifying Bids") shall be all cash offers and otherwise upon terms substantially *identical to the terms of the Letter* Agreement, provided that (i) the party submitting the Qualifying Bid (the "Third Party Purchaser") shall be substituted as the "Investors" or "Newco" as appropriate and (ii) the Third Party Purchaser shall not be entitled to receive reimbursement for its expenses (as described in Clause 9.2 of the Letter Agreement) or the Topping Fee (as defined in Clause 5.2 of the Letter Agreement);

(c) the existence or terms of Qualifying Bids shall not be disclosed by the Joint Administrators except as provided below;

(d) subject to paragraph (e) below, the Joint Administrators may accept a Qualifying Bid of a bidder (the "Winning Bidder") whose bid exceeds the Consideration, as defined in the Letter Agreement, by at least 6 billion lire; there shall be no Winning Bidder if no bid exceeds the Consideration by at least 6 billion lire;

(e) in the event that the Joint Administrators have received Qualifying Bids in accordance with Clause 14 of the Letter *Agreement, then at or immediately prior to the Second Hearing, the Joint Administrators shall disclose the amount of the Winning* Bid and shall conduct an auction sale of MC Italia (the "Auction") at which time the Winning Bidder and the Investors shall be entitled to make higher bids to acquire MC Italia. In the Auction, all topping bids shall be made in not less than 1,000,000 lire *increments; provided, however, that in determining the amount of any bid by the Investors and Newco at the Auction*, such amount shall be deemed to include an amount equal to the sum of the Topping Fee, plus the amount of expenses for which they are entitled to reimbursement pursuant to Clause 9.2 of the Letter Agreement (it being understood and agreed that the Investors and Newco shall not be required to pay such amounts in connection with the Acquisition);

(f) all Qualifying Bids shall be accompanied by proof of the financial capability of the bidder;

(g) each Qualifying Bid shall be accompanied by a deposit in the form of a certified check drawn on a United States or United Kingdom bank equal to 10% of such bid (which deposit shall be paid to the Joint Administrators' New York Counsel, Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, New York 10005, Attention: John G. Gellene, Esq., and held in escrow by such Counsel pending the Bankruptcy Court's determination on the sale of MC Italia) and (i) applied towards the purchase price if the bid is accepted and automatically deemed non-refundable or (ii) refunded in full within 10 business days after *the date of entry by the Bankruptcy Court of an order authorising the sale of MC Italia* if the bid is not accepted;

(h) all Qualifying Bids shall provide, in form reasonably acceptable to the Joint Administrators, for the confidentiality of any and all information relating to the value or operation of MC Italia;

(i) all Qualifying Bids shall provide for a closing to occur within thirty (30) days after the date of entry of an order authorizing the sale of MC Italia or as otherwise set forth in this Letter Agreement;

(j) the Joint Administrators reserve the right to reject any and all Qualifying Bids;

(k) the Joint Administrators will notify (i) the Winning Bidder, if any, of their *acceptance of its bid or (ii) the Investors*, that there is no Winning Bidder, as the case may be, within two (2) business days after the Bid Closing Date;

(l) upon notification of the Joint Administrators' acceptance of its bid, the Winning Bidder, if any, will have two (2) business days in which to execute and deliver a letter agreement in the form of the Letter Agreement with the *exceptions* referred to in paragraph (b) above;

(m) at the Second Hearing, the Joint Administrators will seek the entry of the Second Approval Order (i) authorising the sale of the issued capital of MC Italia to the Investors free and clear of all liens, claims and encumbrances *subject to the terms* and conditions of the Letter Agreement or (ii) if there is a Winning Bidder, authorizing the sale of MC Italia to such Winning Bidder subject to the terms and conditions set forth in its bid.

(n) if there is no Winning Bidder, the Joint Administrators and MCC shall not entertain any other bids to acquire *MC Italia made* outside the procedures set forth in this decretal paragraph and the appearance of any bid made outside the procedures set forth in this decretal paragraph shall not be a basis for the denial of any entry for the Second Approval Order regardless of the amount of any such bid.

PLEASE TAKE FURTHER NOTICE, that objections to the relief noticed herein (i) shall be in writing; (ii) shall comply with the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules of this Court; (iii) shall set forth the name of the objectant, the nature and amount of any claim or interest alleged by such objectant against the Debtors' estates or property, and the *legal and* factual basis for such objection; (iv) shall be filed with the Court and served upon the aforementioned counsel to the Joint Administrators and the Investors such that they are filed and received no later than July 17, 1992.

PLEASE TAKE FURTHER NOTICE, that the Court shall retain jurisdiction to determine all matters arising out of or relating to the making of an objection to the relief noticed herein or a bid made in compliance with the Order, and each person or entity making such an objection or bid at the hearing shall (i) be governed by the conditions set by the Court herein, and (ii) subject itself to the jurisdiction of the Court in reference to all matters arising out of its objection and all matters related thereto.

Dated: New York, New York
June 18, 1992

/S/ Tina L. Brozman,
UNITED STATES BANKRUPTCY JUDGE

NEWS: WORLD TRADE

Nancy Dunne and Damian Fraser look at conflicting interests and market perceptions beneath the free trade banner

US citrus growers add Nafta to a long list of adversaries

FLOODS, droughts, dust storms, and pestilence were once the natural adversaries of the farmer. Now, says Mr Bobby McKown, a 55-year-old citrus grower in central Florida, the enemy list is longer. It includes: water controls, pesticide and fertiliser record-keeping, occupational safety regulations, zoning limits, the Endangered Species Act.

Even worse, in Mr McKown's view, will be the North America Free Trade Agreement, which he says threatens the existence of the $8bn Florida citrus industry. Despite American advantages in technology and infrastructure, Florida fruit and vegetable producers say they cannot compete head-on with Mexico without import duties to compensate for higher costs.

Florida expects to be the state hardest hit by the competition because its growing season is virtually identical with Mexico's. Average farm wages in Florida of $9.58 an hour compare unfavourably with Mexico's 35 cents an hour.

The US is already the largest market for Mexican horticultural products, and Mexico is the largest single foreign supplier in the market, particularly if its quality is upgraded through American investment.

The agriculture negotiations in the Nafta have been contentious – officials are still not agreed on timetables for tariff phase-outs on their most sensitive products. Most items will become tariff-free either immediately or within 5-10 years. The most sensitive may have a 15-20 year phase-out period.

Last week, the Mexican farm talks were reportedly stalled. Not only are there considerations of products and trade flows on the table, but there are environmental, economic and social concerns.

Mr McKown, a member of the US trade representative's influential agriculture policy advisory committee, is hoping that Florida's produce will excluded from the Nafta. But negotiators have found that once one country asks to remove a sector from the table, the other threatens to remove one of its. (Canada is expected to conclude a separate agreement with Mexico and maintain the current free trade agreement rules for agriculture with the US.)

Although Mexican horticulture exports to the US are almost nine times more than the reverse, the US industry sees Mexico as its fastest growing fruit and vegetable market.

However, Ms Jodean Bens, manager of international trade for the United Fresh Fruit and Vegetable Association, says the safeguards against import surges must take into consideration both volume and price factors. The US industry needs a dispute settlement which works swiftly, before produce spoils.

But none of this will satisfy the *Florida* industry. *Mr Bob* Crawford, state agriculture commissioner, warned in May that thousands of jobs would vanish in the sugar and vegetable region, in tomato production and the citrus industry.

Mexican maize farmers loath to abandon the fight for land

Poor and vulnerable, Mexican maize farmers ponder their future under Nafta

MARGARITO Montes, *leader of the Popular Farmers'* and Workers' General Union, represents the new hope of Mexican agriculture. A rabble-raising populist, Mr Montes became famous by invoking the spirit of Emiliano Zapata, Mexico's revolutionary peasant leader, and forcibly taking land from the government and rich land-owners.

Now Mr Montes is the very picture of modernity. He supports free trade with the US, the government's market-orientated agricultural reforms, and has renounced his membership of the leftish Party of Democratic Revolution. His union is now participating in a $100m dairy farm project with Canadian investors.

Mr Montes has been rewarded handsomely *for his* conversion, with his union receiving considerable government support to set up the dairy project in Veracruz.

But for Mexico's agriculture ministry it is worth the effort. If Mexico is to compete with the US and Canada under free trade, peasant leaders will have to stop fighting for land, and start investing in it.

Without substantial investment in agriculture, Mexico cannot hope to compete with the US and Canada. As a result of decades of land invasions, permanent agrarian reform, and legally-enshrined communal property rights, most Mexican farms are under-capitalised, *and too small to* be productive.

The agricultural sector accounts for just 3 per cent of commercial loans, but employs 25 per cent of the work-force. The typical size of a maize plot is 3.9 hectares, against 39.9 in the US.

Mexico is particularly vulnerable in maize, where yield per hectare is just 1.9 tonnes, compared to 7.4 in the US. Mexico has protected its roughly 2m maize farmers by *restricting imports, so that* Mexican maize prices are double those in the US.

Under a free trade agreement it is probable that protection will be removed over 15 years, with tariffs being lowered and quotas increased over this period.

Most of these maize farmers are already extremely poor and a fall in maize prices will force many to leave their farms.

Enter Mr Margarito Montes. The government hopes that joint ventures such his union's in Veracruz with Ault Food of Canada will become a model of enterprise between peasants and the private sector, and *soak up the* displaced maize farmers.

At the end of May some 140 joint ventures had been formed between the business groups and small property owners or *ejidatarios* (common property owners), in wheat, vegetable, and poultry production, among other areas.

Not everyone is convinced *that* Mexico's agricultural sector will enter the first world as quickly as the government would like.

Mr Montes still ends his speeches with "Viva Zapata", thus bowing to the revolutionary leader. His followers respond enthusiastically, and, when asked, expect to be handed out land soon.

Kohl seen as key to Gatt breakthrough

By David Dodwell,
World Trade Editor

EUROPEAN trade negotiators were in intensive telephone contact yesterday, seeking a compromise *that will allow the* long-blocked Uruguay Round of talks on world trade liberalisation to be settled before the Group of Seven summit in Munich, now two weeks away.

"I think there is a deal *there," one official said.* "It *would be catastrophic if it does* not succeed." Negotiators agreed that the position of Germany's Chancellor Helmut Kohl was crucial.

Meanwhile, international business leaders last night met Mr Kohl in Bonn to protest that the credibility of the G7 industrial nations had been stretched to the limit by its repeated empty commitments to settle the Uruguay Round – and could be stretched no further.

Representatives of the International Chambers of Commerce (ICC), who met the German leader, insisted that a successful conclusion of the Uruguay Round was "crucial and urgent". "Nowhere has the inadequacy of political leadership [in the G7] been more evident in recent years than in the Uruguay Round," they said.

The Uruguay Round has been stalled for 18 months by a dispute between the US and the European Community on liberalisation of farm trade. Leaders at two previous G7 summits have called for settle*ment of the Round, but with*out effect.

Negotiators in several European capitals said yesterday that intensive efforts were under way to formulate proposals that could be presented to the US, perhaps next week. Mr James Baker, the US Secretary of State, is understood to be ready to meet Community foreign ministers.

Two issues continue to block agreement. First is an EC demand – backed strongly by Bonn – that compensation to be paid to farmers for cutting output and setting land aside should be accepted by the US as not distorting to trade. The German government is being pressed to compromise here.

The second is the Uruguay Round proposal that the volume of subsidised exports be cut by 24 per cent. The EC's preferred compromise is that the Community should be allowed flexibility to cut the volume of subsidised cereal exports more deeply than 24 per cent, in order that more sensitive subsidised exports – in particular meat and dairy products – could be cut less deeply.

Deadlock in Efta talks with Poland and Hungary

By Nicholas Denton
In Budapest

TRADE liberalisation talks between Hungary and Poland and the European Free Trade Area are deadlocked, the Hungarian government said yesterday.

The two former communist states are refusing to accept Efta's offer on import tariff reductions, regarding them as much less generous than the European Community association agreements.

The Hungarian government said sympathy *for* eastern Europe and the political will to overcome protectionist lobbies were fading. This could be seen in the lack of progress both with Efta and with EC parliaments' ratification of the association agreements.

One stumbling block in Hungary's Efta talks is the resistance of Austrian farmers to increased food imports from Hungary. A good agreement with Austria, a neighbour and the second most important trading partner, *is particularly* important to Hungary.

Czechoslovakia's agreement with Efta, which was concluded in April, has come under attack for setting precedents for eastern European weakness in the face of west European negotiating strength.

Discussions between Poland, Czechoslovakia and Hungary on regional free trade to parallel that with western Europe also suffered a blow with the move to break up the Czechoslovak federation. The uncertainty will delay talks and an independent Slovakia would resist dramatic moves to open up markets, Hungarian officials say.

● Hungary is set to back down on discriminatory vehicle import tariffs in favour of Ford of the US after heavy pressure from European carmakers.

The government promised yesterday to reverse a decision to impose 18 per cent duties on van imports by all companies except for Ford, which is one of the largest investors in Hungary.

Duties on European-made vans will now be brought down to match the free entry granted to Ford's Transit model.

The decision is a humiliating defeat for Hungary at the hands of powerful vehicle manufacturers such as Fiat and Renault which prodded the European Community to investigate discrimination embodied in the two-tier tariff.

Hungary gave in after European carmakers made veiled threats to hinder ratification of its association agreement with the EC.

But the Hungarian government remained defiant even after its climbdown, saying that it had introduced the tariff with "noble motives" of promoting foreign investment in Hungary.

■ Maxwell chief named over £180m 'unusual' payments ■ Accounts report extraordinary losses of £421.5m

MGN threatens legal action

By Andrew Jack

MR MICHAEL STONEY, a senior executive in a number of Maxwell companies, is named as one of three people primarily responsible for more than £180m of "unusual" payments from Mirror Group Newspapers bank accounts during the last financial year, according to the chairman's statement released with MGN accounts yesterday.

Mr Kevin Maxwell and Mr Ian Maxwell, two sons of the late Robert Maxwell, are named as the other two people most involved in these transactions. Both Mr Kevin Maxwell and Mr Stoney refused to provide MGN with information, the statement says.

Sir Robert Clark, chairman of MGN, lists a series of transactions - which he stresses may have been perfectly legitimate - that took place in the past few months.

He says legal action may be taken against a number of organisations, including Goldman Sachs, the US investment bank, over more than £40m in transfers from MGN if the bank was aware that they were "effected for improper purposes".

Notes to the accounts show that MGN made extraordinary provisions of £421.5m in the year to December 29 1991, including £208.6m in pension deficiencies and £122.4m in transactions with Maxwell-controlled companies.

Sir Robert says that during the year there were at least 28 "unusual" payments for more than £1m from the group's bank accounts, making a total of more than £180m. "Some may well ultimately be established to have arisen under legitimate transactions."

Nine of the payments were authorised solely by Robert Maxwell. The others were authorised mainly by Mr Kevin Maxwell, Mr Ian Maxwell and Mr Michael Stoney, he says.

One transfer to Goldman Sachs was countersigned by Mr Ernest Burrington, former managing director, at the request of Mr Kevin Maxwell on the reported instruction of Robert Maxwell. Two authorisations were countersigned by Mr Lawrence Guest, former MGN finance director.

Sir Robert says the MGN directors do not believe that either Mr Burrington or Mr Guest knew there was anything improper about these payments. With these exceptions, "the independent directors . . . were not involved in, and did not authorise or approve any of these payments," he says.

Sir Robert says the group finance department accepted assurances from the treasury department - which was headed by Mr Stoney - about "the nature of certain transactions" including payments to financial institutions which were recorded as deposits.

"The treasury department arranged for it to appear that sums of interest had been credited to the group in respect of those 'deposits'," he says.

In his report Sir Robert points to "certain weakness" accepted by the MGN board:

● Internal controls and operating procedures which failed to identify related party transactions and bring them to the attention of independent directors for approval;

● Bank mandates authorised by Robert Maxwell and Mr Michael Stoney which permitted the movement of group funds on the authority of Maxwell or directors who were also directors of Maxwell-controlled companies;

● The audit committee of non-executive directors, which might have reviewed systems and mandates, but was not convened;

● The finance department's inadequate authority to verify and record the treasury department's activities.

Separately, the statement highlights three transfers of more than £40m from MGN to Goldman Sachs, the US investment bank. £11m of this was transferred on Robert Maxwell's signature to pay for previous dealings in Maxwell Communication Corporation stock. The balance was for foreign exchange trade exposures incurred by Bishopsgate Investment Trust and Robert Maxwell Group, it says.

He says MGN is currently inquiring to see whether it can establish if Goldman Sachs was "aware or should have been aware" that the transfers "had been effected for improper purposes". If so, he says "it will be possible to seek orders against them . . . for the sums paid."

He says MGN is considering legal action against professional advisers in relation to property leases, and hopes to recover money through claims on insurance policies written on Robert Maxwell's life.

Ashley Ashwood

Round-up: Daily Mirror photographer Bill Rowntree organises his men at the newspapers press conference yesterday: (left to right) Charles Wilson (director); Sir Robert Clark (chairman); Alan Clements (deputy chairman) and Vic Horwood (chief executive)

One of the trusted lieutenants

By Richard Donkin

MR MICHAEL Stoney, 42, operated close to centre of the Maxwell empire. Like Ian Maxwell and Kevin Maxwell, he chose to remain silent when asked to give evidence before the Commons social security select committee.

Before Mr Stoney resigned as deputy managing director (finance) of Mirror Group Newspapers (MGN), he had become one of Robert Maxwell's most trusted lieutenants.

Mr Stoney, who became a fellow of the Institute of Chartered Accountants in 1971, began climbing the Maxwell ladder after Maxwell Communication Corporation (MCC) took over a stationery company where he was finance director. He was promoted by Maxwell to deputy managing director in October, over the head of Mr Lawrence Guest, the finance director, and without consulting other directors.

In recent weeks he is understood to have been working from the offices of Arthur Andersen, the accountancy firm which is administrator of the private Maxwell companies, assisting investigations.

Last night it emerged that Mr Stoney had been retained as a salaried employee of Headington Investments by Arthur Andersen.

Mr Murdoch McKillop, one of the four administrators, said that Mr Stoney had been retained since December. He added: "It was considered to be the most cost-effective way to get to the bottom of a number of issues . . . his function is to assist us in whatever we determine."

Accounts show 'irregular' payments

By Andrew Jack and Norma Cohen

THE 1991 accounts for the Mirror Group show extraordinary losses of £421.5m from a series of transactions which took place during the few months up to the collapse of the Maxwell business empire late last year.

The most significant losses and provisions come from deficiencies in the pension funds and a series of "irregular transactions".

● £208.6m for pensions deficiency and related matters. Most comes from the deficit in the pension funds, estimated at £192.9m. Deferred tax of £62.3m and regular pension costs of £4m for 1991 reduce the net provision to £126.6m.

A second charge of £10.9m reflects £16.3m in pension prepayments written off because of the misappropriations of assets, net of £5.4m in tax.

A third item for £3.4m — or £2.3m after tax - is MGN's commitment to meeting pensions of members of the Maxwell Communication Works Pension Scheme, who were never employed in the MGN Group, up to June 30 1992.

● £122.4m in losses associated with transactions with Maxwell-controlled companies including a provision of £50m against advances from a loan facility with Bankers Trust.

There is £48.8m accounted for as interest-bearing deposits with financial institutions, including £38.8m with a Maxwell-controlled company.

A further £17.1m remains outstanding from a C$35m promissory note receivable from the Robert Maxwell Group, and provisions of £6.5m against other balances with Maxwell-controlled companies.

● £50m for extraordinary contingencies. Only two of the contingencies are quantified: A $6.5m claim from an individual, believed to be Mr Mark Booth, formerly the US-based chairman of Maxwell Entertainment Group; and a £0.8m claim from employees of the European newspaper under contracts they claim were in the name of MGN companies.

● £46.4m in "associated undertakings", including a provision of £22.2m resulting from sales of MGN's interest in Donohue; a loss on the disposal of QPI of £17.6m; and a £6.6m adjustment to provide additional deferred tax under a change in Canadian tax law.

● £42.6m, split between £20.5m in fees payable to MGN's advisers and bankers arising from the default of the group and its restructuring, and £22.1m to "crystallise" the group's potential liability under interest rate transactions.

● £14.4m in losses arising from a £200.4m forward foreign currency contract apparently designed to hedge against servicing a loan in dollars. This was entered into without consultation with the board.

● £7.3m including a £4.4m provision against the balance of a loan outstanding against an employee share ownership trust, £2.4m from closure losses and costs of The Racing Times, and £500,000 in sundry items.

There was a deferred tax credit of £70.2m

NatWest agrees to return £25m of Israeli shares

By Andrew Jack

NATIONAL WESTMINSTER Bank yesterday agreed to return voluntarily to the Maxwell pension funds £25m of shares in Teva, an Israeli pharmaceutical group, which were pledged as security for a $27.3m loan.

The bank has also agreed to pay legal costs - believed to be about £100,000 - incurred in its tussle over ownership with Robson Rhodes, liquidator to Bishopsgate Investment Management, manager and trustee of the Maxwell pension funds.

However, Mr Neil Cooper, head of insolvency at Robson Rhodes, said that legal action to recover other shares from three foreign banks was likely to take many months and their return might require government assistance.

Agreement for the return of the Teva shares was delayed by NatWest's requirement for Robson Rhodes to substantiate its claim of ownership. It was also stalled by a counter-claim from Arthur Andersen, administrator to the private Maxwell companies.

Andersen believed it might own the Teva shares because they were transferred through the Robert Maxwell Group, part of the private empire. But the firm agreed last week to drop this claim.

NatWest said that the shares were taken in good faith following written assurances from the directors of the private Maxwell companies that the shares were beneficially owned by Robert Maxwell Group. "It now seems these assurances were untrue," it said in a statement.

Efforts to recover other parts of the estimated £448m in assets taken from the Maxwell pension funds is likely to be considerably slower. Up to half of these assets have been pledged as security against loans to Robert Maxwell's private interests from three banks - Banque National de Paris, Crédit Suisse and Lehman Brothers.

That includes £90m-100m in shares from the Common Investment Fund, a pool from which most of the Maxwell pension funds were managed. An additional £80m-90m belonging to individual pension schemes is also held by these three banks.

£460m set aside for pension deficiency

By Norma Cohen, Investments Correspondent

MGN WILL have to pay £460m before tax into its pension fund over the next 14 years in order to meet the deficiency left by the theft of assets from the scheme, according to the company's annual report.

The accounts include a £193m provision for the cost of so-called past-service liabilities of those who work or had worked for MGN before Robert Maxwell's death.

The report details for the first time the cost of MGN's commitment to meet all pension obligations after the theft of more than £200m from the fund.

The report notes that contributions to the scheme will be "at a significantly reduced rate" for the first three years, but concludes that contributions over a 14-year period represent a rate of payment demonstrating "a fair balance between the competing interests of the company's shareholders, creditors, employees and pensioners".

The cost of meeting pensions liabilities in respect of past service may take longer than 14 years, the report says, largely because of new laws requiring companies to increase pensions in line with inflation.

MGN had earlier announced revisions to its pensions schemes intended to allow it to meet all obligations to present and former employees.

The first £20m of any of the missing money recovered will be used to meet past-service liabilities. The government has confirmed its legal obligation to meet guaranteed minimum payments (GMP) to current pensioners.

A MGN executive said yesterday that the next £50m of assets recovered by receivers are required to be refunded to the US in exchange for its promise to meet GMP for current employees and former employees now working elsewhere. So far, the government has pledged £2.5m above its legal obligations to aid current Maxwell company pensioners who have lost all or part of their pensions.

The chairman's report says MGN's duty to "ensure the future viability of the company" has forced it to remove some 4,000 members of its pension scheme from a safety net for scheme members.

Those affected are mostly employees and pensioners of up to 80 companies acquired by Robert Maxwell's BPCC who never worked for MGN but were transferred into the MGN scheme.

The MGN accounts record a payment of £3.4m to cover the cost of providing payments in full for those individuals through June 30, 1992.

From July 1, those individuals will have their pensions cut by 70 per cent.

Major pressed on report

By Alison Smith

THE NEED to prevent legal proceedings over the Maxwell affair being put at risk by publication of a report into the supervision of Maxwell companies was emphasised by Mr John Major yesterday, as he came under renewed pressure to make the full findings public soon.

The Securities and Investment Board (SIB) has received the report by Imro, the investment management regulatory organisation, details of which have been leaked over the past few days. Challenged in the Commons by Mr Neil Kinnock, the Labour leader, the prime minister said he understood SIB intended to publish Imro's findings, but that "the House will understand it will be essential to ensure that publication does not in any way jeopardise either civil or criminal proceedings in the Maxwell affair, including those currently underway against Kevin and Ian Maxwell."

Mr Kinnock argued that government involvement made publication a "pressing necessity". He highlighted the decision by the Department of Trade and Industry in 1988 to grant an investment licence to London and Bishopsgate Investments, after the Bank of England had blocked an attempt by Robert Maxwell to take over a merchant bank.

"Is it not clear in these circumstances both the government and the system it established have got a clear and serious charge of negligence to answer?", he said.

MPs believe that the role of the DTI in granting the original licence in 1988 is critical to the extent of the responsibility government will have to take for the plight of the Maxwell pensioners. It was unclear yesterday whether the government was investigating that role.

Express chief settles case against Guardian

LORD STEVENS, chairman of United Newspapers, yesterday settled a libel action against The Guardian when he accepted a statement from the newspaper that it did not intend to suggest he had concrete evidence about Robert Maxwell's theft of £300m from the Mirror Group pension fund and had failed to disclose it to regulatory bodies.

Mr Geoffrey Shaw QC said in the High Court that Lord Stevens considered an article in December gave the impression he had contributed to the huge losses suffered by Mirror Group's pensioners.

He said the article had stated regulators would want to question individuals who appeared to have known of Maxwell's misappropriation of funds. It commented that Lord Stevens would be among them.

Miss Jane Colston, The Guardian's solicitor, said the article was published in good faith. The newspaper did not intend to suggest that Lord Stevens had failed to disclose concrete evidence about Maxwell's misdeeds.

Prime minister asks Jacques Delors for speedy clarification on subsidiarity

Major to press for EC enlargement

By Philip Stephens, Political Editor

MR JOHN Major signalled last night that Britain will press its European partners to finalise a mandate for enlargement negotiations with at least four Efta countries by the end of this year.

At a working dinner in Downing Street with Mr Jacques Delors, the European Commission president, the prime minister also called for the Brussels executive to speed up work to clarify the use of "subsidiarity" in Community decision-making.

Mr Major, whose talks with Mr Delors focused on the agenda for the Lisbon summit later this week and on the subsequent British presidency of the EC, said he was determined to put enlargement at the centre of his agenda.

Senior colleagues said he wanted the Commission to draw up months EC's basic negotiating stance with Sweden, Switzerland, Finland, Austria and, possibly, Norway. The aim would be prepare a firm negotiating mandate for the Edinburgh summit in December.

Mr Major acknowledges that several other EC governments have been unwilling to contemplate enlargement negotiations until the Maastricht Treaty is ratified. But he appears determined that their objections should not delay preparations.

His government's view is that a firm commitment to enlargement will be a central element in a package of measures to allow the Danish government to hold a second referendum on the treaty.

A second element is a much tighter definition of subsidiarity – ensuring the Community only has authority in those areas where national governments could not operate effectively.

Officials said that Mr Major welcomed the work that Mr Delors had already instituted but impressed on the Commission president the need to translate the theory into practical decisions. That would involve both a review of all those areas in which the Commission had in the past taken "unnecessary" powers, alongside a mechanism to ensure that it did not do in the future.

The prime minister also sees tangible progress on both fronts as one of his most potent weapons in his efforts to isolate Tory critics of the Maastricht deal as well as in the Community's attempts to re-assure the Danes.

Mr Major underlined his determination not to renege on Maastricht during a meeting yesterday afternoon with officers of the 1922 committee of backbench MPs. He told them that Britain's growing influence in shaping the future direction of Europe depended on it being seen to honour its agreements.

Mr Douglas Hurd, the foreign secretary, will convey the same message in a meeting of Conservative MPs later today.

The government, meanwhile, is to delay the renomination of a second British Commissioner until after the Labour leadership election. Mr Major, who will endorse Mr Delors continued presidency at the Lisbon summit, intends to re-appoint Sir Leon Brittan as the senior British commissioner. But he has met Labour requests that any decision over Mr Bruce Millan's future should not be taken until after Mr Kinnock's replacement as opposition leader next month.

● Mr Major must distance himself from the "Thatcherite" notion that widening of the European Community will stop greater EC integration, Mr Paddy Ashdown, Liberal Democrat leader, urged yesterday.

Too many Tories believe that by promoting a wider Europe, the UK can reverse the Maastricht process and reduce the EC to a simple free trade area, Mr Ashdown said at a meeting of EC ambassadors in London.

Intelligence corps faces new scrutiny

By Ralph Atkins

THE GOVERNMENT has indicated that it will consider increasing the scrutiny of Britain's overseas and domestic intelligence services.

Legislation is already planned to put the Secret Intelligence Service, or MI6, on a legal basis. But extra clauses, to increase the service's accountability to the House of Commons, were not ruled out by Downing Street yesterday.

An official at the Foreign Office, which is responsible for the MI6, said that consideration of the Bill's contents was at an early stage but, "it is all up for grabs".

The hints come amid attempts by Mr John Major to reduce unnecessary secrecy in Whitehall and improve the accountability of public services. Last month he confirmed, for the first time, the existance of MI6 and named its chief, Sir Colin McColl.

The domestic intelligence service, MI5, was put on a statutory basis in 1989 and, theoretically, is accountable to MPs via ministers. It is probable that any extra scrutiny applied to MI6 would extend to MI5.

However it is unclear how far the government is prepared to go towards the demands of some MPs – that the intelligence services should be accountable to a Commons' select committee, or a committee of privy councillors.

In spite of Mr Major's commitment to reducing secrecy, the government refuses to comment on the activities of the intelligence services.

Brussels may extend deposit protection

By David Barchard

CUSTOMERS of British banks may soon enjoy protection on 90 per cent of their bank deposits instead of the present 75 per cent, under proposed legislation from Brussels, according to Sir Nicholas Goodison, president of the British Bankers Association.

The protection, however, will apply to up to £11,900 (Ecu 16,000) of savings compared to £20,000 offered by the existing depositor protection scheme within the UK which will continue to operate alongside the new European Community scheme.

Building society customers already enjoy protection on 90 per cent of their deposits up to the £20,000 ceiling.

Banks within the European Community are reported to be close to agreement on the main points of a Deposit Guarantee Schemes Directive which would ensure minimum standards of depositor protection throughout the twelve member states of the European Community.

The talks between the banks ran into temporary difficulty when banks in Germany and Italy tried to hold out for 100 per cent depositor protection under the directive.

British banks oppose total depositor protection which they believe would encourage imprudent behaviour among both investors and banks and make much stricter government regulation of the banking system necessary.

The British Bankers' Association (BBA) expects that the scheme which is now likely to be agreed will ensure that depositors are able to get back up to ninety per cent of their savings up to ECU 15,000 (£10,714) if their bank fails.

One advantage of the new scheme for depositors is that it would cover deposits in all currencies.

The existing scheme applies only to sterling deposits.

Deposits with branches of banks from non-EC countries operating inside the EC would also be covered by the scheme.

Though no text of the proposed Directive has yet been drawn up, the bankers' association expects that it will be finalised in the second half of this year during the British presidency of the European Community.

London set to be slowest growing big EC city

By Peter Norman, Economics Correspondent

GREATER London will be the slowest growing of the European Community's main city areas for the first half of the 1990s while greater Manchester will be second from the bottom of the EC growth league, a joint report from a group of European economic research bodies says.

In a report on the prospects of 32 city regions in the EC and Austria until 1996, the European Economic Research Consortium (Ereco) forecast that five of the 10 slowest growing areas would be in the UK.

The fastest growing UK city region would be Edinburgh, ranked 23 out of 32, followed by Cardiff and Birmingham at 24 and 25 respectively while the Glasgow-Strathclyde area is forecast to be 27th in the growth league. These city areas are expected to achieve annual increases of between 2.4 and 2 per cent in gross value added between 1989 and 1996, while the value added to goods and services produced in London is expected to grow by only 1 per cent a year in the period.

The Ereco institutes from the UK, France, Germany, the Netherlands and Austria, concluded that an "Alpine Arc", including southern Germany, Austria and northern Italy, will gain more in prosperity than other European regions to 1996. However, Madrid and Berlin will be the fastest growing EC cities with annual value added growth of 4.7 and 4.5 per cent respectively.

The institutes forecast that Munich, Vienna, Bologna, Lyon and Stuttgart will achieve annual value added growth of between 3.4 and 3.9 per cent between 1989 and 1996. The cities in the alpine area have in common reserves of skilled labour, long traditions of industrial innovation and socio-political stability. They are also the centres for some of the more dynamic sectors of manufacturing industry.

However, the Ereco research on the potential of Europe's alpine region is incomplete. The cities of Switzerland were not included in the study.

The UK cities' poor growth outlook reflects the deep UK recession. But London has special problems including traffic congestion, high costs and deindustrialisation, while greater Manchester will be hit by a further decline in its textile and defence related industries.

European Regional Prospects, Ecu 2,000 (£1,400) or Ecu 100 (£70) for abridged version, from Cambridge Econometrics, 21 St Andrew's Street, Cambridge CB2 3AX, UK.

UK Post Office freezes prices

By Roland Rudd

UK POSTAGE prices for first and second class mail will be frozen until at least the end of the year as the Post Office announced a record pre-tax profit of £247m for the year to March 29.

Sir Bryan Nicholson, chairman, said the Post Office's increased productivity and cost reductions could make it harder for the government to deregulate the market – although he made it clear he was not afraid of more competition.

Last year, the government announced plans to reduce the Post Office's monopoly on sending letters priced under £1. Yesterday it said: "We are still committed to introducing more competition and will do so in the next parliament – not withstanding the Post Office's good results."

For the first time since the government announced its decision to establish a national lottery, Sir Bryan revealed that the corporation had made a formal bid to run it, with another company, through its network of 20,000 Post Office counter shops.

This year's £247m profit compares with £153m in 1990-91 when there were £106m of exceptional items relating to re-organisation of Royal Mail, the letters division, and the Parcelforce Group parcels service. Turnover for the group increased from £4.7bn to £5.1bn.

Royal Mail's profits before tax and exceptional items increased from £171m to £266m. Post Office Counters' pre-tax profits fell by £2m to £26m.

Parcelforce continues to lose money. It made a loss before tax and exceptional items of £24m compared with a £75m loss in 1990-91. It shed 550 administrative jobs and closed more of the division's operational centres in a move designed to make the parcels division break even. Sir Bryan said he continued to hope that it would make a profit by next year.

Mr Tom Corrigan, chairman of the Post Office Users' National Council, said: "Parcelforce has now lost £131m in the past two years and had it not been for the efforts of Royal Mail, the Post Office would clearly have failed to meet the mandatory financial targets imposed on it by the government."

Sir Bryan's pay increased by 14 per cent from £149,195 to £170,471, reflecting performance-related bonuses. The annual accounts also disclosed that four other Post Office board members were paid between £135,000 and £150,000.

Jeremy Bates brought new hope to long-suffering British tennis fans today when he eliminated seventh seed Michael Chang on the second day of the Wimbledon tournament in south-west London. Britain's top player, ranked 113th in the world, delighted spectators on Court 14 with a straight sets victory, 6-4 6-3 6-3, over the American, who at 20, is 10 years his junior. Bates said: "I got better as the match went along. It's a good win, but it's only one match – I'm not going to be ranked 10th in the world after this."

PM may act on sale of County Hall

By Andrew Adonis and Alison Smith

MR JOHN MAJOR, the prime minister, is set to intervene in the growing controversy over the future of London's County Hall, amid expressions of deep resentment by the Japanese purchaser of the site at the government's continued failure to confirm the sale.

The cabinet is divided on the sale. Several senior ministers are believed to support consideration of a bid by the London School of Economics (LSE) to take over the site. A clause in the sale contract allows the government to withdraw at any time until the end of this year. A cabinet committee last week reportedly decided to allow the LSE to submit a plan to move to County Hall from its present site in central London.

Mr Makoto Toyota, of Shirayama, denied reports that the company had indicated its desire to withdraw because of the controversy, but said: "The present situation is totally exhausting. We are begging the British government to make clear its intentions soon if we are to carry on."

Health group urges the closure of 15 hospitals

By Alan Pike, Social Affairs Correspondent

UP to 15 London hospitals should close with resources shifted to improvements in family doctor and community services, a report on the capital's health care recommended yesterday.

The report does not nominate hospitals for closure, but implementation of its recommendations would mean the loss of famous teaching hospitals. Medical staffing levels in the city's hospital service would be reduced by 30 per cent.

Mrs Virginia Bottomley, health secretary, described the report, from the King's Fund health policy centre, as a radical vision of future health care in London which would be "extremely valuable in pointing the way ahead."

She has asked Sir Bernard Tomlinson, who is advising the government on future health provision in the capital, to take account of the proposals.

London is relatively over-provided with hospital beds, particularly in its high-cost inner-city teaching hospitals.

The problem has been brought to a head by the new funding system of the government's health reforms – inner-London districts, with their falling populations, are losing money while health authorities in the Home Counties have greater incentives to treat patients locally.

"In many important respects London's health services appear stuck in a time warp, having been shaped a century ago," says the report.

In 1989-90 hospital and community health services in London cost £2.9bn – 20 per cent of total English expenditure although the capital contains only 15 per cent of the population. Health care costs in London were 20 per cent above the English average, with those in central London 45 per cent higher.

London received a "poor deal" from health services. Compared with the rest of England it had considerably more general practitioners with list sizes in excess of 2,500 and more single-handled GPs, while the proportion of GPs aged over 65 was 130 per cent above the English average.

The report calls for a strategic task force, accountable to the government, to develop primary and community services in conjunction with health authorities. It envisages a 25 per cent reduction in London hospital beds over the next 18 years, and predicts the closure of about 15 major acute (general) and specialist post-graduate hospitals between now and 2010. London has 41 acute hospitals with more than 250 beds.

It would, says the report, require about £1.2bn to achieve its proposed service changes, plus £220m to develop community health care premises. An estimated £1.5bn will be available under the NHS's capital programme for London hospital developments during the next 20 years.

London trains one-third of Britain's doctors. The report envisages cutting the number of medical students in the capital from 1,350 to 960 with training concentrated in four colleges of London university – Imperial, University, Queen Mary-Westfield and King's.

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Britain in brief

Lloyd's chiefs face angry investors

Today's annual general meeting of the Lloyd's insurance market promises to be full of fire and fury.

The markets ruling council faces the anger of many of the hundreds of Names, the individuals who stake their wealth on the insurance market's fortunes, who face financial ruin as a result of the latest losses.

But Names' leaders are expecting little of substance to emerge. Names facing losses are placing their main hopes on legal action and believe that an extraordinary general meeting, in which the council faces a vote of no confidence, could be more decisive.

Mr David Coleridge, chairman of Lloyd's, will tell Names that the market's losses in 1989, its latest year of account, will amount to £2bn.

About 4,000 Names on seven syndicates managed by Gooda Walker, which went into liquidation last year, must pay £491m.

Aids scare played down

UK health authorities said a man accused of deliberately infecting several women with the HIV virus had been irresponsible rather than malicious.

News reports said the man has developed full-blown Aids and one of the infected women had died. Another of the women reportedly told newspapers he had wilfully passed on the disease in revenge for inheriting heamophilia.

The man involved, however, issued a legal statement saying said he had never had sex with any woman who was not aware he was HIV positive.

to infect.

The case has highlighted Britain's lack of legislation to prosecute those alleged to have transmitted a fatal disease deliberately. Members of parliament have called for the law to be changed to bring it in line with legislation in the US and Australia.

Insurers plan 'blitz' on fraud

The insurance industry has promised a "blitz" on fraud, as it launched a media campaign to combat bogus and inflated claims which cost it an estimated £400m last year.

Mr Mike Jones, chief executive of the Association of British Insurers (ABI), which is co-ordinating the effort, said: "We aim to identify, spotlight and prosecute the fraudsters. They must not be allowed to get away with dodgy claims."

Fraud by policyholders has added to the problems of the industry, which announced record trading losses of £3.3bn in 1991.

Tally sticks sold for £17,600

A bundle of 21 rare wooden tally sticks (above) used in the mid-13th century as royal receipts has sold for £17,600 at Sotheby's to the London dealer Quaritch.

Further tax relief for films

The government has decided to broaden the tax relief measures for the film industry that were announced in the Budget.

Mr Stephen Dorrell, financial secretary to the Treasury, has proposed new clauses to the finance bill to provide relief up to a limit of 20 per cent of pre-production expenditure and to extend the planned 33⅓ per cent annual write-off on film production to expenditure on the acquisition of qualifying films.

The moves will cost little in the current financial year but add about £5m a year to government support for the industry from 1993-94 onwards.

Accountants keep cars

The UK motor industry, increasingly concerned that higher taxation on company cars might lead to employees handing back their keys in favour of more salary, could take comfort from a survey of chartered accountants on the subject.

Nearly 70 per cent of 200 accountants surveyed said they would not willingly exchange their company cars for a cash equivalent.

The survey by *Accountancy* magazine, however, said there is good reason for car makers to worry should companies themselves decide to end company car schemes.

Anglia TV to freeze wages

Anglia Television has announced a wage freeze for its staff until the beginning of 1994 as well as other cost cutting measures. The decision is the latest sign of financial tension in the ITV system following last year's competitive tenders for new franchises.

Coke plans green scheme

Coca-Cola has launched its first plastic bottle in Europe containing recycled material, but quickly ran into criticism from environmental groups. Plastic bottles left at kerbside collection boxes will be shipped to a reprocessing plant in the US. The regenerated pure plastic resin will be sent back to existing Coca-Cola bottling plants in Europe for manufacturing.

Japanese investors step up Welsh R&D

A number of Far East companies are moving design teams to the principality, writes Anthony Moreton

COMPANIES based in Japan are increasingly undertaking research and development in Wales, the UK principality, and increasing the "local" – European Community – content of their products.

Those are the principal findings of an investigation of the economic and social consequences of Japanese investment in Wales.

Three academics at Cardiff Business School – Mr Jonathan Morris, Mr Max Munday and Professor Barry Wilkinson – found that nine out of 23 manufacturing companies surveyed had undertaken "limited design work" with one consumer electronics manufacturer "intending to transfer major development work from Japan in the next two years".

The nature of the R&D varied from the basic – using only three employees – to companies such as Sony, Calsonic and Hitachi, with "major design departments employing upwards of 50 people".

Four years ago a report by Mr Morris led to angry recriminations over his finding that Japanese investment had largely led to the creation of assembly work, for a mainly female workforce, having a limited effect on the rest of the Welsh economy.

The new report shows job creation among men has increased materially – 47 per cent of the workforce in the plants that provided figures.

Of the 42 Japanese companies operating in Wales, 29 are in manufacturing, with a heavy concentration in consumer electronics. The rest cover interests such as golf-course ownership, property development, musical instruments and distribution.

Takiron, the first company to come to Wales, arrived in 1972 to make PVC corrugated sheeting. The largest, Sony, now employs about 2,500 people – more than that traditional Welsh industry, coal. Other big names include Hitachi, Matsushita, Brother Industries and Sharp.

The survey says local content of the manufacturing companies' products was more than 50 per cent in over half the manufacturers surveyed, with a "common range" of 60 per cent to 80 per cent in the large producers of consumer electronics. The highest level of local content was in chemicals and plastics, where three of the companies bought more than 95 per cent in the EC. The survey adds: "The majority of companies were actively seeking to increase local content levels over the next five years."

Slightly more than 200 of the 13,400 employed by the Japanese in Wales are Japanese nationals. One company, Sekisui – which opened in Merthyr Tydfil in 1978 – had a completely non-Japanese workforce.

Social life for the Japanese can be difficult. The men tend to bury themselves in their work. Some managers said they worked the same long hours as they had done in Japan. "Typically I work 8am to 10.30pm. I worked 3,300 hours in 1991," one manager told the researchers.

Many of the Japanese wives speak little or no English and isolation is accentuated for some when companies spread employees around the community "as part of a policy to aid integration".

The main problem for families was said to be reintegrating children into Japanese schools on return home. Some executives overcame this problem by leaving their wives and families behind.

Japanese Investment in Wales: Economic and Social Consequences. Cardiff Business School, Cardiff CF1 3EU. £20.

Delegates to today's National Association of Health Authorities and Trusts conference in Harrogate have all received an unusual gift – a pedometer.

The intention is to highlight the fact that people working in hospitals spend a remarkable amount of time walking around.

A study of junior doctors published by Andersen Consulting this week showed that each walks an average of six or seven miles during a shift – consuming up to three hours of what is supposed to be productive time.

Porters in one large teaching hospital were found to be walking up to 20 miles a day. Less remarkable perhaps, because walking is one of a porter's main duties but – since the hospital spends £1.25m a year on portering services – powerful evidence that a reduction in their movements could save money.

Could it be achieved? Yes, conference delegates will be told. It will require a complete restructuring of the way hospitals are organised, but that is not as impossible as it seems.

Many British hospitals have developed in a haphazard way. Often housed in Victorian buildings extended during the present century, new departments and large items of equipment tend to be located on the basis of available space rather than efficiency.

Health planners in Britain, the US and elsewhere are now trying to bring more order into this haphazard structure. Schemes known as patient-focused or patient-centred hospitals aim to provide teams of care staff to meet most of a patient's needs in a single unit, so that patients do not have to go on long journeys around the hospital for treatment.

A few commonly repeated blood tests, for example, account for 80 per cent of all hospital blood testing – suggesting that nurses could be trained to carry such procedures on the ward.

Andersen Consulting, which is involved in helping hospital managements develop patient-focused schemes - alongside Booz Allen & Hamilton and other management consultants - sent the pedometers to conference delegates to emphasise the point. But the time wasted walking around was only one of the inefficiencies found by Andersen in a survey of 10 NHS hospitals during the past three months.

Other findings showed that:

- A common pathology test took, on average, 10 people and 18 hours.
- A typical patient came into contact with 47 different care providers during a five-day stay in hospital.
- Hospitals in the survey typically had 201 job classifications.

The patient-focused approach involves moving away from the concept of the hospital as a single institution and dividing its buildings into a series of centres.

Britain's big hospitals are becoming out-dated. Alan Pike reports on pressure to break them up

Measured approach to radical reform

At Lee Memorial Hospital in Florida, where Andersen is helping local management introduce "focused-care", a mini-orthopedic hospital has been established within the building with its own beds, pharmacy, laboratory, radiology centre and offices.

Patients receive all except the most specialised and complex treatment within units like these from teams of multi-skilled staff.

Kurt Miller, an Andersen consultant, believes the patient-focused approach raises the quality of care and improves industrial relations and staff retention rates. He predicts it could eventually reduce overall operating costs by about 10 per cent.

London's Central Middlesex Hospital, which became one of the first self-governing trusts last year, is managing its own move to a patient-focused structure with an in-house team.

Starting next year, the hospital will be divided into 14 ambulatory care centres reflecting the main medical needs of patients and catering for both day and in-patients. There are plans to replace old buildings with purpose-built blocks to house the centres.

According to Andy Black, the hospital's chief executive: "An increasing number of other managers are asking about what we are doing. This may become one of the next big issues for change in the service." A move to patient-focused care would undoubtedly cause a reduction in those 201 job classifications. Supporters of the system say multi-skilled teams are good for both the quality of patient care and staff morale.

Miller says his US experience suggests that once initial staff fears about de-skilling have been addressed, job-satisfaction rises. "When a multi-skilled team is given complete responsibility for a group of patients, they feel they are playing more of a part in the task of curing people."

Nick Edwards, Andersen's UK consultant who supervised the survey of NHS hospitals, says current hospital organisation encourages staff to give primary loyalty to their profession. "The solution is to design the system around the needs of the patient, rather than giving priority to the requirements of the institution and the professional and other groups working in it."

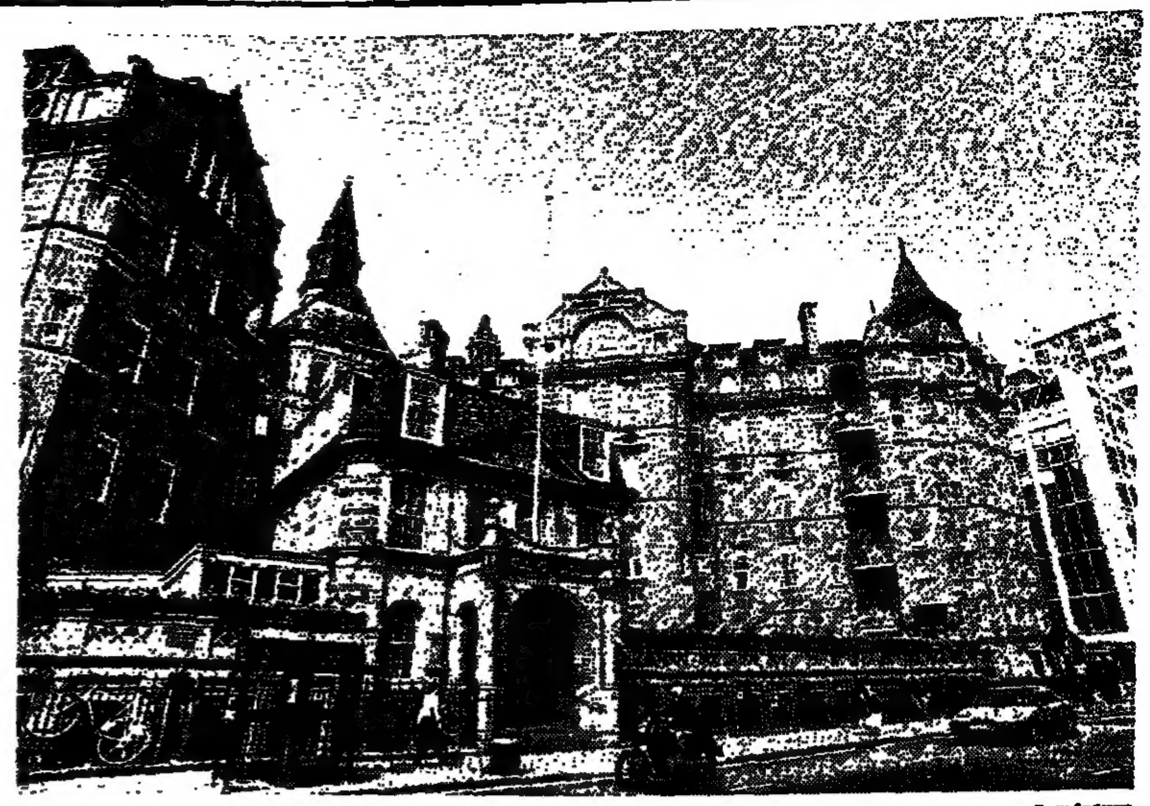
Some NHS managers believe hospitals are likely to reduce their workforces by up to 20 per cent during the 1990s. This is likely to affect both skilled and unskilled staff. A move to a patient-focused organisation would provide personnel managers with a rational basis for launching a drive for productivity improvements in the NHS.

By the next century, even more dramatic things may be happening to hospitals. According to a report published by the King's Fund health research organisation yesterday, they will be playing a much smaller part in the overall delivery of health services by the year 2010.

The King's Fund report casts doubt over the future of famous London teaching hospitals like University College and the Middlesex hospitals, with their joint medical school and elderly, central London buildings.

The district general hospital of the 1960s and 1970s is becoming outdated, suggests the report. It predicts that a large proportion of hospital work – perhaps including areas like psychiatry, dermatology and the clinical care of elderly people – is likely to shift to GPs surgeries, health centres and the community. The bulk of planned, non-urgent surgery will be performed on a day-case basis. Hospitals will become smaller and more specialised, concentrating on people receiving complex treatments.

Compared with achieving this level of change, the introduction of patient-focused care looks a relatively straightforward management task. But the view that hospitals are about to undergo some of the biggest structural changes in their long history is widely shared by health planners and, as the King's Fund report points out, the year 2010 is not very far away.



Tony Andrews

Doubts are being cast over the future of London teaching hospitals like University College Hospital

A wall of silence on the subject of property

Vanessa Houlder offers some advice to companies that are mismanaging their buildings

The part played by bricks and mortar in UK business is remarkable both for its importance and its inefficiency.

"Property is often a neglected asset, despite its significant contribution to running costs," declared a recent survey commissioned by Stanhope, a property company.

"Property needs to be higher on the boardroom agenda," concluded a report by Debenham Tewson & Chinnocks, property adviser, published last week.

British companies suffer some of the highest property costs in the world. Buildings typically account for 5-15 per cent of a company's operating costs, second only to the payroll in importance. Property is often more than half a company's tangible assets: UK companies owned £225bn of property in 1989.

A vast number of companies have more property than they need. DTC's survey of the UK's 100 largest companies showed that 5 per cent of commercial floorspace was unused – enough to accommodate the entire working population of Bristol. For the most part, however, property receives very little attention, with the notable exception of takeover bids where property values tend to be an important battle ground.

Perhaps the main explanation for this is the lowly stature of property managers. The head of property is often six or more layers down from the chief executive. Only 10 per cent of the UK's largest 100 companies employ a property director.

"In most companies, there is little or no representation of property within main boards, with the result that property is never fully considered as part of the overall business plan for the company," says St Quintin, a firm of chartered surveyors.

In some industries, the pressure to improve the efficiency of property management is intense. Retailers in the south east which have been struggling with crippling rate and rent rises are acutely aware of the need to contain property costs.

Pharmaceutical companies are mindful of the value of their asset base because the regulation of drug prices is linked to their return on capital. The value of a bank's property holdings affects its capital and its ability to lend.

Improving the way that property is managed is not easy. Property is notoriously illiquid and cyclical. Furthermore, the structure of the UK property industry is, almost alone in the world, designed to suit the investor rather than the occupier. UK tenants' leases are far more onerous than most of their counterparts overseas.

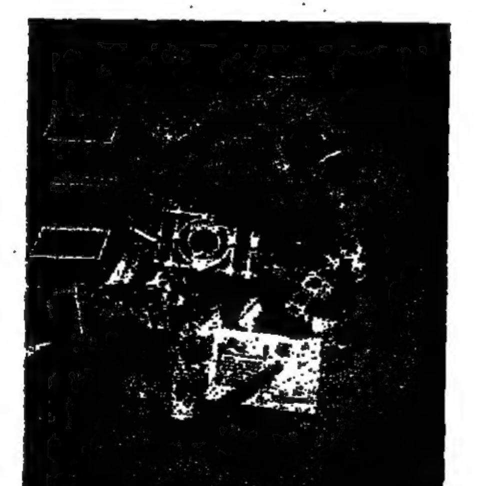
In some respects, a tenant's lot is particularly difficult at present. The present slump is scuppering the best-laid plans for relocation, sub-letting and the disposal of empty property.

But in other respects, the property glut has turned the tables on landlords, who now have to place more importance than ever on attracting an occupier. This is creating unprecedented opportunities.

Measures that should be considered include:

- Tougher negotiations on new leases. Tandy, the retail chain, is refusing to sign any leases without a five-year break clause. Boots has just won a court case over its refusal to sign an upwards-only rent review.
- Sale and leasebacks, which allow a company to unlock the capital tied up in a building. This is likely to have increasing appeal to property-rich companies, such as hotel chains and retailers, which want to strengthen balance sheets.
- Improved management information. At least 20 per cent of the top 100 companies do not even known the basics such as location, size and tenure of each property they occupy, according to DTC. Only a third of large companies have a comprehensive management information system.
- Separating the role of landlord and occupier within a company. Charging an occupier the true costs of its premises can have important implications for its profitability. When, for instance, Kingfisher, the retail group, introduced this arm's-length approach between shops and property investment in the early 1980s, it exposed the poor returns of a phalanx of stores which were then closed.
- Extracting value from properties. Most portfolios offer opportunities to buy in unfavourable leases, to realise development potential, to enhance values by getting planning permission or release "marriage" value by combining freehold and leasehold in one ownership.

Even in the the trough of the property recession, there is scope for companies to think ahead. If property is to be more than a necessary evil, companies need to minimise costs and identify value.



BUSINESS AND THE ENVIRONMENT

Haig Simonian describes the risks and rewards of special techniques to save the crypt of St Mark's basilica

Waterproof in Venice

Visitors entering St Mark's basilica in Venice usually cast their eyes upwards as their attention is caught by the stunning golden mosaics of Christ and the Apostles towering above them.

Few spare a thought for matters below ground. However, until recently, the crypt beneath the High Altar, which houses the remains of the Serenissima's patron saint, offered a scene to dampen the spirits of even the keenest tourist.

For decades the crypt, one of the basilica's holiest places, has played host to thousands of gallons of dirty, fetid water. Its level has been *rising steadily as Venice itself has* sunk. At high tides, the water has even lapped the tips of the ancient vaulted brickwork forming the *crypt's ceiling,* leaving a disfiguring and potentially dangerous legacy of salt within the stone.

The water has not come from Venice's famed tides, but from seepage through the crypt's walls. The level of water outside the crypt has risen, allowing ever more water to penetrate its walls.Today, the crypt floor is 36cm below sea level.

Church records show that attempts to tackle the problem are as old as the Basilica itself. In the mid-sixteenth century, administrators thought they had overcome their troubles by raising the floor.

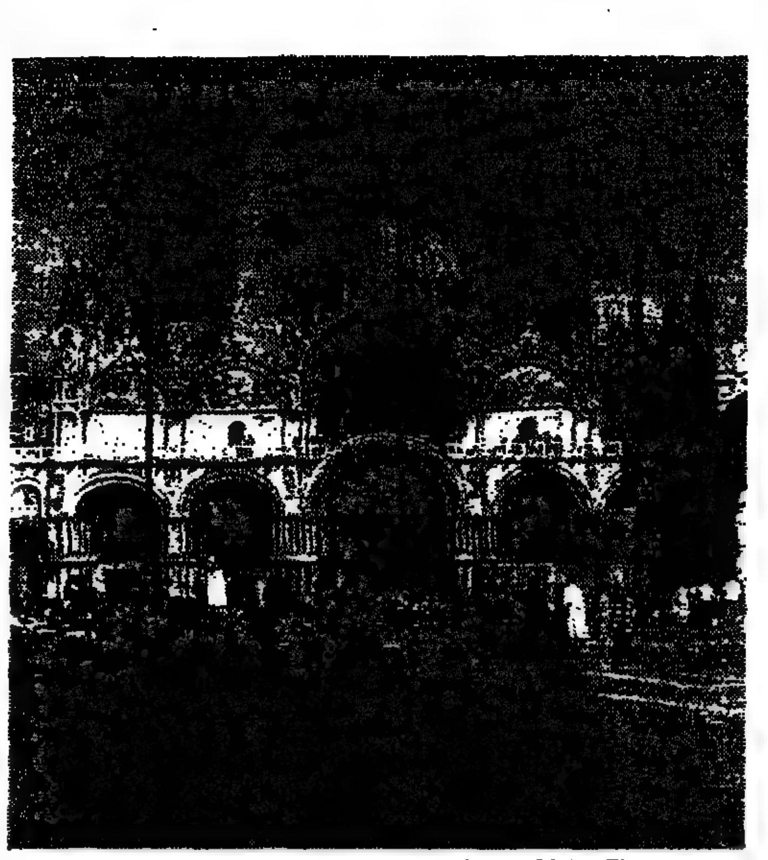
That worked for a few decades. *By the mid-1580s, the crypt was* becoming unusable again, and it was eventually walled off. Three hundred years later, with the discovery of concrete, another serious attempt was made to resolve matters. The lower half of the walls and the floor, raised again, were covered with concrete to keep the water out.

The treatment worked, but did nothing to stop the problem of summertime condensation, which became evident as soon as the crypt came back into use. By the mid-1950s, water penetration was increasingly acute as the concrete lining aged and the whole city sank further. The crypt was closed.

At a press conference last week, Rhone Poulenc, the French chemicals group which has sponsored sev*eral stonework restoration projects* in Italy, announced that the crypt's problems may be over. After a six-year project, involving study of *materials and the injection into the* walls of a special waterproof resin, the sea may be out for good.

When the next phase of the restoration, concentrating on the ceiling brickwork, is over, it should be possible to hold services in the crypt again. The hope is to complete by 1994, the Basilica's 1,000th anniversary. The crypt would be reserved for worship.

Rhone Poulenc's contribution has come in the form of speciality chemicals - in this case Rocagil, a silicone-based resin - and the technique to apply them. The company is reluctant to say how much it has spent. Apart from donating the *materials, its commitment has* involved devoting senior specialists to the project, with two technicians on site.



Preserving a gorgeous legacy: the facade of Saint Mark's basilica

Using resins for waterproofing is not new. According to Carlo Molteni, a former R&D chief of Rhone Poulenc in Italy, the first application dates back to a dam project in Algeria in 1968.

The age and the cultural and religious significance of St Mark's crypt turned the restoration process into an unusually lengthy task. Preliminary work in 1972 involved the use of epoxy resins. They failed to permeate the finest cracks and pores.

*Rocagil had a viscosity level simi*lar to that of water, which made it ideal for the task, explains Molteni, who holds a 1967 patent on the use *of silicone-based resins.* Even when the right product had been identified, application could only take place slowly. Only after two high tides could the project leaders be sure that the chemical, and the technique, were working. The need to observe the Basilica's primary function as a place of worship meant heavy work, such as drilling, could not take place uninterrupted.

The project has been a object lesson in public relations and marketing for Rhone Poulenc. It also spotlights the risks of misunderstandings and cultural clashes that can emerge when big business and bodies like St Mark's mix.

Sponsorship of the arts is not new in Italy. Many companies, notably banks, are generous givers for prestige-winning restoration projects.

Rhone Poulenc, which counts Italy as its fourth biggest foreign market, with sales of about L1,300bn, is no exception. It has been involved with projects to restore the stonework on buildings and monuments as famous - and disparate - as Milan's town hall and the Duomo in Parma, as well as making a perfect copy of Donatello's statue of St Mark in Florence. Concentrating on restoration and copying allowed the company to associate its name with some of Italy's best-known monuments.

The idea also makes sense in terms of the group's overall image and communications strategy. Rhone Poulenc is only the world's seventh biggest chemicals group. It claims however to be a leader in advanced chemicals for stone restoration. Executives say it is one of a handful which have the specialist skills to apply the materials most effectively.

However, the Venice restoration shows how delicately a company must tread. It was no coincidence that one of the Basilica's representatives pointedly refused to use the word "sponsorship" at last week's press conference.

"Sometimes their attitude is pure hypocrisy", says one person not linked to Rhone Poulenc. "They want our money and our products but balk at the idea that we may be doing them a favour. Rather, it's the other way around. Sometimes, you'd think they'd prefer it their buildings were just left to fall down rather than having anyone interfere".

That approach may seem surprising for cultural administrators in countries like the UK, where government funding cuts have obliged curators and churchmen to look to industry for assistance.

With more than a decade of expe*rience in Italy, Rhone Poulenc has* probably learned the right arts of diplomacy. Despite the obvious differences, its presence at St Marks is clearly appreciated, especially now that work is due to start on the crypt's ceiling.

That process may take as long as dealing with the floor and walls, as the ancient bricks, now completely impregnated with salt, are visibly crumbling. "I don't think there is a structure as compromised as this one", says Mr Molteni.

How the salt will be expelled, and what will replace it so that the bricks do not fall to pieces, will require months of study before final decisions are made. Whatever technique is chosen, the church and the company will be working, as far as possible, in harmony.

Package of market ideas to tackle tide of waste

Pioneering concepts are agitating the international packaging industry. **John Thornhill** outlines them.

The rising tide of packaging waste poses an increasingly acute problem for the modern consumer economies. Few issues challenge more urgently the ingenuity of environmentalists, industrialists, and bureaucrats the world over.

Until recently, the proposed solutions have tended to favour a regulatory approach relying on governmental intervention. Legislation has been introduced to force industry to recover and to recycle increasing proportions of packaging waste. Strict targets for recycling rates have been set; sometimes, it seems, almost arbitrarily. *Certain forms of waste disposal,* such as incineration, have been banned.

These solutions have certainly forced the packaging industry to address the issues as never before. They have however led to results which, in many cases, only harm the environment further.

For example, German companies have dumped zero-cost plastics packaging waste on foreign markets as far away as South Africa after being forced by their draconian recycling regime *to collect it* but unable to reprocess it commercially within their own borders.

In a discussion paper* to be published this week, *the Centre for* Social and Economic Research on the Global Environment, an environmental think-tank, forcefully argues that market-based *solutions* can be a more effective way of tackling the root problems: how to ensure that the minimal amount of packaging is used in the first place and how to create economic incentives to recover and recycle the waste that is inevitably produced.

The next solution they came up with - which the authors claim was conceived while waiting for a delayed flight at Brussels airport - is a graduated tax, imposed on packaging products to reflect their full environmental costs. The tax could either be imposed directly by government or by industry itself in the form of a levy. The market would then determine the "best" forms of packaging.

The argument is that, at present, there is a "market failure" in the pricing of packages because the "external" costs of disposing of the waste products by means of landfill, incineration or composting are not included in the original price. The study suggests that an environmental tax would have *the effect of* "internalising" some of these "external" costs, reflecting their true environmental and social impact.

A blanket tax on all packages to cover these costs would not discriminate between packages which had differing *environmental* impacts. Nor would it encourage manufacturers to develop design to use less raw material.

The report therefore suggests there should be several variables within the tax calculation to accommodate these concerns and to ensure the viability of the "Polluter

Pays Principle", which is widely becoming accepted as an essential component of market-based environmental solutions.

The formula for the tax (illustrated) shows how this might work.

Should the manufacturer of a packaging product reduce the weight per litre of its product, then the burden of tax would reduce correspondingly. Similarly, if the rate of recycling (expressed as a fraction) was increased, then the calculation would again change and the tax would fall further.

The paper suggests that the "external" costs should be limited to the environmental damage resulting only from the manufac*ture and transport* of packaging products.

Other considerations, such as the environmental damage caused by *bauxite extraction to produce alu*minium cans, should be separately regulated by governments. Levying additional *tax on a package* to account for such factors would result in inefficient double taxation.

One obvious complication is that the tax will vary when applied to different products and countries. The costs of waste disposal are for instance very much higher in the Netherlands than in the US, partly because if you try to dig a landfill tip in the Netherlands, you end up with a swimming pool.

That suggests taxes have to be calculated nationally, or perhaps even regionally. Practical problems arise *as to how the tax may* be collected and what effect it might have on international trade.

Rough calculations of the effects *of applying such a tax throw up* surprising conclusions, which the authors accept are "counter-intuitive from an environmentalist viewpoint".

When applied to the UK market *for beverage packaging,* the study suggests that cartons would be taxed lowest (mainly as a result of their low weight); followed by plastic PET bottles; returnable glass bottles (assuming they are re-used on average 14 times); and aluminium cans. Heavy non-returnable glass bottles incur an extremely high tax.

The independent study was produced with the help of Tetra Pak, the Swedish packaging group which is the world's biggest manufacturer of multi-layered beverage cartons.

Environmentalists have nevertheless welcomed the study as a very useful contribution to the debate.

* *Packaging Waste and the Polluter Pays Principle - A Taxation Solution. David Pearce, Kerry Turner and Inger Bresson. Centre for Social and Economic Research on the Global Environment (CSERGE), University College, London.*

FT LAW REPORTS

Syndicate must extend cover

TOUCHE ROSS & CO AND *OTHERS* v BAKER
House of Lords (Lord Templeman, Lord Jauncey of Tullichettle, Lord Browne-Wilkinson, *Lord Mustill, Lord Slynn* of Hadley):
June 18 1992.

A DISCOVERY extension clause in a line slip insurance policy giving the assured an option to extend cover after non-renewal by the underwriters, is not collectively binding on all participating syndicates but may be invoked against an individual non-renewing syndicate irrespective of whether the others have renewed.

The House of Lords so held when dismissing an appeal by Mr Colin Baker, representative underwriter for Lloyd's Syndicate 126, from a Court of Appeal decision (*FT, March 6 1991*) that Syndicate 126 was bound to extend cover to the plaintiff assureds, Touche Ross & Co and five other accountancy firms under excess professional indemnity policies.

LORD MUSTILL said that for many years a professional indemnity programme had been organised by Minet & Co. The policies were written in layers under line slips.

Some 120 companies and syndicates took part.

Substantial lines were taken by Lloyd's Syndicate No 126. The relevant lines were on the first and third excess layers.

The policies contained "discovery extension" clauses, giving the assured an option exercisable before expiry of the policy, to prolong cover for a further period in exchange for additional premiums.

The protection afforded by prolongation related only to claims arising from acts already done before expiry of the policy.

In the 1980s, the insurance market contracted rapidly, so that to find replacements for full cover on non-renewal became more difficult, and the right to buy time by deploying the discovery extension clause cover became more important.

The underwriters elected to terminate cover under the primary and first excess layers from May 31 1987, and the third excess layers from May 31 1986.

The assured then set about replacing the cover, in particular by seeking to persuade the existing insurers to reinstate it on renegotiated terms.

Not all insurers were willing to participate. Accordingly, the assured invoked the *discovery* extension clause.

With one exception the non-renewing insurers accepted invocation of the clause without demur. That exception was Syndicate 126.

It maintained that the clause must be exercised against all the insurers or none.

The assured disagreed, maintaining it would be absurd to read the policy as requiring invocation of the clause against insurers who were willing to continue full cover.

Mr Justice Leggatt found in favour of the assured. His decision was upheld in the Court of Appeal. Syndicate 126 now appealed.

The appeal turned on the application of well-established rules and practices to the terms of the policies. None of *the following propositions* were in question:

1. Every underwriting member of Lloyd's incurred liability to the assured on a several, not joint, basis (see section 8(1), Lloyd's Act 1982).

2. Notwithstanding that his rights and liabilities were several, the individual "name" never acted on his own in creating insurance contracts. He underwrote through an agent. Business was conducted on a grouped basis, through syndicates.

3. When an underwriting agent took a line on a policy for his syndicate, he called into existance a bundle of individual contracts between each name and the assured, identical save as to the respective proportions taken by the names. That bundle was agglomerated with the other groups of contract created when other syndicates took a line on the same insurance.

4. There was complete delegation by the name to the agent of all powers relating to conduct of his underwriting business.

5. In practice, it often happened that some of the delegated powers were further delegated to others. Such onward delegation was often effected in unison by all subscribers to the risk. For example, several syndicates might authorise a third party to contract on their behalf — as happened here with the line slip.

The first of those characteristics of Lloyd's insurance was said by the assureds to lead directly to dismissal of the appeal. They said the underwriters' argument treated the contract as if it were bipartite, with the assured on one side and the insurers as a group on the other.

They said that to understand the contract in that way was to ignore the fundamental rule that Lloyd's insurance involved not one contract, but a group of bundles of contracts. The fact that the underwriters were severally bound entailed that the assured were entitled, and bound, to exercise the contractual option in an equally several manner.

That was not accepted.

The case was about the separate treatment of syndicates, not individual underwriters. The logic of the argument if carried through, would lead to the conclusion that the assured would have the right to exercise the discovery extension option separately against each *individual name.*

Such a result would run entirely contrary to the way in which Lloyd's conducted its business.

Thus, although the first principle had an important part to play in the appeal, it did not lead directly to a decision in favour of the assured.

In interpreting the policies to see which of two possible arrangements for creation of an option to extend was intended, the practical implications of preferring one would be an important element.

Clause IV condition 3(b) of the policies provided that "this policy" should be extended annually "unless . . . either party has given the other due notice that the expiry date shall not be extended".

Condition 5 provided that "if the underwriters shall refuse to extend this policy", the assured had the right on payment of an additional premium, to extension of cover granted by "this policy".

Counsel for the insurers relied on the repeated use of "this policy", and drew attention to "either party".

He said that use of the singular made it plain that the subscribers to the policy were regarded as a single body.

The argument must be *approached with caution.* Experience showed that insurance documents in the London market were rarely drawn with *the precision of language* needed for grammatical contrasts to be a reliable guide to intention.

The practical consequences of the underwriters' argument were sufficient to show that the absence of any sign that subscribers' rights were to move in unison represented the true sense of the document.

If the underwriters' argument was sound its logic must also require that the extension notice was also to be given for all subscribers or none.

Since the policy was self-renewing that would mean that if all but one of the subscribers wished to bring it to an end but the others did not, all the individual contracts would roll inexorably on from anniversary to anniversary until the dissenter could be brought into line.

That seemed completely at odds with the need for the individual syndicate or company to *be constantly reassessing its* position in regard to its own strategies, capacity and exposures elsewhere.

If that view was right, the insurers' argument was unsustainable, since the discovery extension clause could not be read as requiring the option to be exercised against all, if some subscribers had chosen to remain with full cover.

The notion that the parties could have intended the giving of an extension notice to those who were willing to extend — a notice which would be a useless formality and the source of unnecessary future effort — was unacceptable.

There was nothing in the words of the policy to compel the result for which the underwriters contended, and everything in the practical considerations to the opposite effect. The appeal was dismissed. Their Lordships agreed.

For the underwriters: Anthony Boswood QC and Guy Philipps (Simmons & Simmons).

For the assured: Jonathan Mance QC and Robert Bright (Lovell White Durrant).

Rachel Davies
Barrister

PEOPLE

'People motivator' for Extel

Gavin Shreeve, formerly editor and publisher of The Banker magazine, has moved to Extel Financial in the newly created position of managing editor of the data products division.

Extel, strong in the provision of securities data for back office funds valuation and administration, is this year moving into real-time prices, designed to take the Extel *name into front office trading* rooms at securities houses and fund management operation in the UK, continental Europe and North America. "While Reuters prices at the level it does in the UK, there is a niche in the market for us," according to Stuart Clark, director in charge of data products.

Clark says the new role of managing editor is an amalgam of the posts of City editor, in charge of news gathering, and business operations manager. "Gavin is a people motivator. He has a wide range of contacts. And he has the ana*lytical skills. Ours has always* been very much a culture of data collection, not analysis." Clark also forecasts early *changes in the news service* — which has hitherto not shone.

Shreeve moves after five years at The Banker, part of *Financial Times Business* Information, where he says his main contribution has been to make the magazine "much more technical, as well as much prettier".

Like Shreeve, who had his own magazine Middle East Money before joining The Banker, the new editor, Australian Stephen Timewell, is also a Middle East specialist, with an MA in Middle Eastern studies Chicago University.

The two know each other from days on Middle East Economic Digest and Timewell, having already been on The *Banker* two years, is keen to stress continuity. "More on emerging markets and banking structures; and more listings *and analysis," he promises.*

■ John Evans has been appointed managing editor of STANDARD & POOR's Equity *Information Services; Matthew* Windridge, formerly head of research and strategy at Banque Paribas capital markets in London, has joined as director of research and strategy.

■ Brian Cooke, formerly director, investment services division at Extel Financial, has been appointed a director of ROLFE & NOLAN, and president and ceo of Brokerage Systems Inc.

Jonathan Dimbleby, the new president of the Council for the Protection of Rural England (CPRE), says his CV on countryside matters has so far been "informal rather than formal". But, having been brought up on a farm, attended agricultural college, and "played midwife to more lambs than I ate before I became a vegetarian", the broadcaster and journalist reckons he is the man for the job.

He was approached by David Puttnam, film producer and president of the CPRE for the past seven years, and the current chairman David Astor. Despite his time in Hollywood, Puttnam was seen as an effective president; the Council was therefore convinced of the merits of looking for another media personality rather than, say, an expert planner.

"I came to the environment as an issue via development," says the new president, who made a film about desertification in the Sahel in the early 1970s "when it was a non-story".

Now his job will be to "represent the consensus of the CPRE beyond its natural constituency"; this includes getting city dwellers, rather than just the denizens of the shires, interested in the Council's work. "One of the things that attracts me about it is that it is not a narrow Nimby organisation," says Dimbleby, who does, however, have his own back yard, a beautiful valley outside Bath, to defend from a proposed by-pass.

A "cautious optimist" about the Earth summit, which he attended as a reporter, he thinks there are "significant hostages for all governments" that the environmentalists can and will winkle out of Agenda 21, the 800-page guide to sustainable development that was put together in Rio.

■ If proof is needed that running a City public relations firm is a *high-risk affair,* Keith Lewis, chief executive of Streets, Britain's second oldest public relations outfit, has *been made redundant on the* eve of the firm's annual Summer party for the financial press.

Although he is not being replaced directly, many of his responsibilities have been taken over by David Millham, executive deputy chairman, who only joined Streets in April after he was made redundant from Shandwick, the world's biggest public relations firm which he helped found.

Millham, who used to work with Lewis at the Financial Times, says that Lewis left after a policy disagreement with TKI, Streets' Dutch parent.

■ Leopold Joseph, the small London merchant bank, has appointed Sir Charles Frossard as a non-executive director and deputy chairman of its Guernsey operations, Leopold Joseph Holdings (Guernsey) Limited.

The chairman of the Guernsey bank is Sir George Blunden, and Leopold Joseph boss Robin Herbert says the two know each other well.

Sir Charles, who is 70, retired, after ten years as Bailiff of Guernsey, in February. "His extensive knowledge of the Channel Isles will be a great help to our business," says Herbert.

■ Chris Tappin, formerly chairman and chief executive of SPIRAX-SARCO ENGINEERING, is now executive chairman and Tim Fortune (below left) has been promoted to group md. Chris Ball, Graham Marchand and Marcus Steel have been appointed directors.

Simon Harris is leaving the board; David Meredith is promoted to director — finance and Peter Smith appointed company secretary.

■ Peter Quast (below right) has been promoted to md of REDIFFUSION SIMULATION, a subsidiary of Hughes Aircraft Company.

■ *Douglas Cuthbertson has* been promoted to director of finance of NORTH HOUSING ASSOCIATION on the retirement of John Cassidy.

■ Christopher Dyson has been appointed director of selling for THOMAS GOODE.

Moves in finance

■ Jerry Grayburn has been promoted to director, marketing of ALLIED DUNBAR.

■ David Knott has been appointed treasury director of FIRST MORTGAGE *SECURITIES; he moves from* Credit Suisse First Boston.

■ David Hough, Richard Loader, John Post and Richard Smeeton have been appointed directors of LAURENCE KEEN.

■ Roger Colwill, Martin Gagen, Janet Gunn and Willie Watt have been appointed directors of 3i plc.

■ Geoff Douglas is moving from Smith New Court to become director of smaller companies research at BZW in September; he takes over from Andrew Holland who is to become head of BZW's Korean research.

■ Tony Smith has been appointed chairman of BROKER FINANCIAL SERVICES.

■ Anthony Haire has been appointed *a director of* CATER ALLEN INVESTMENT MANAGEMENT (CI).

■ Stephen Vakil has been appointed *a director* of FOSTER & BRAITHWAITE.

■ Richard Russell has been appointed company secretary of HENDERSON ADMINISTRATION.

■ Emma Horlee and David Cobb have been appointed directors of SMITH & WILLIAMSON SECURITIES.

■ John Ellbourne, formerly insurance director of TSB, becomes branch network director; Archie Kane, formerly director of financial control, becomes operations director.

ARTS

Television/Christopher Dunkley

Local government drama

What did our grandparents know about local government? And how did they come by the knowledge? The questions are prompted by two series now running on television: the eight-part documentary *Town Hall*, which reached its second episode on BBC2 last night, and the repeat of Alan Bleasdale's seven-part drama *GBH* which began on Channel 4 on Saturday. Between them they have drawn a lot of attention to local government, and provided information of a sort which would not have been available to previous generations of the general public.

The original idea of this column was to compare these two major series, each taking up a lot of screen time, both – as I assumed – chiefly concerned with the minutiae of local government, and providing a valuable example of the comparative strengths of drama and documentary. There are people, Roger Graef springs to mind and Leslie Woodhead, who have started out working in one discipline and switched to the other. Woodhead, a Granada journalist, began making "faction", or drama documentaries, in the late 1960s when it proved impossible for the current affairs series *World In Action* to show the audience what was going on behind the iron curtain in any other way.

Graef started out in drama in North America but after coming to Britain began making fly-on-the-wall documentaries such as *The Space Between Words* a series which contrived to show how people in various groups such as a family and a factory workforce communicated, or failed to do so. With this sort of programme the key technician is the cameraman who, to get in close and remain inconspicuous, frequently has to work for long spells with a hand-held camera. Graef's cameraman for those programmes and on the later series *Police*, shot in the Thames Valley, was Charles Stewart who, while continuing to operate his camera, has gone on to be his own co-producer and is now responsible with Malcolm Hirst for *Town Hall*.

After the *Police* documentaries Graef returned to drama, still taking the police as his subject, because he knew there were some aspects of police behaviour, certain attitudes he had observed among policemen, which the fly on the wall seemed unable to record. Does this mean that "art is a lie which tells us the truth", that drama is the superior form even for a journalist's purposes, and that the documentary is inherently inferior? I doubt whether Graef or Woodhead (who returned to documentaries) would say that. I suspect that both would say what almost anyone would say who has spent a lot of time observing the success rates of different sorts of programme: that what matters most is the ability and integrity of the individual programme maker, regardless of the form in which he is working.

Nevertheless, given that the teams making *Town Hall* (Stewart and Hirst) and *GBH* (Bleasdale, with Verity Lambert as executive producer and Robert Young directing) were among the most highly regarded in their respective sections of the industry, and that I had been abroad for all but the last part of *GBH* on its first transmission, this coincidence of subject matter seemed too good an opportunity to miss. Who would reveal most to us about the workings of local government, the dramatists with their fiction or the documentary makers with their fact? In the event the question proves almost irrelevant because local government is merely one of the frames within which Bleasdale presents his pictures. The details of council structures and activities are no more important to *GBH* than the details of shoe making are to *Hobson's Choice*.

What Bleasdale gives us is an account of two men's lives: Michael Murray (played by Robert Lindsay, giving the best and most subtle performance of his life, on television anyway), who happens to be the Labour leader of a big city council, and who, in some ways, reminds us unavoidably of Liverpool's Derek Hatton; and headmaster Jim Nelson (Michael Palin giving the best performance of *his* life) who is a more complex and peculiar character, suffering from fear of death and worry about anxiety.

Lewisham Council Leader Steve Bullock (top) in 'Town Hall' and, below, Robert Lindsay in 'GBH'

When the series first appeared what claimed all the attention was the way that Bleasdale depicted the organisation of the inner city riots. Some watched the opening episodes and lamented Bleasdale's desertion to the right since he appeared to be blaming left wingers for cynically organising mayhem to gain political advantage. Others watched longer and ridiculed Bleasdale for the plot twist in which it emerged that secret government agents had infiltrated the left to produce chaos and discredit Labour councils.

Yet that is a relatively trivial sub-plot. The important purpose of *GBH* is to use television serial drama as a means to explore that landscape of the mind which has long been the subject of the novel but which has so rarely been approached on television. The master of the form is Dennis Potter whose *Singing Detective* is, so far, the best thing ever attempted in this area, but *GBH* – and this only becomes clear when you pay close attention to the whole piece, which is asking a lot since it lasts ten and a half hours – runs it a close second. Though every episode is slightly too long, it is a most impressive piece of work, and it seems absurd that BAFTA should continue to deny it the drama prize which a majority of the jurors say they voted for. The "winner", *Prime Suspect* was good but *GBH* is outstanding.

However, if knowledge about the workings of local government is your aim then *Town Hall* is your programme. Thirty years ago this series would have astounded us; today, having seen umpteen fly-on-the-wall series revealing the working methods of detectives, customs men, and even politicians, we have become blasé, yet this is a remarkable series. True, it has all the bugbears of its genre: in the name of purity (presumably) we are denied a voice-over and are consequently obliged to read captions, giving financial statistics for instance, when we ought to be watching the pictures; and sometimes the refusal to use television lights, as in the library sit-in next week, leaves us with a screen full of dark silhouettes.

But those are nigging complaints when judged against the achievement as a whole. Stewart and Hirst have recorded the activities of the elected councillors, the Labour group, the council's paid executives, and public groups such as those who, this week – in a scene strikingly similar to one in *GBH* – stormed the town hall doors. The revelations are both impressive and infuriating: impressive in the quantity of time that unpaid councillors are willing to contribute, and infuriating in the way that they endlessly prevaricate over the balancing of the council's budget.

It was brave or foolhardy or both of Lewisham Council to give television this sort of access because the programmes reveal an alarmingly unimpressive standard of management, considering these people are handling hundreds of millions of pounds of public money; and the relationship between volunteer councillors and the professional staff who must do their bidding looks just as tense and touchy as you might expect. Of course "stars" are emerging: Leisha Fullick, Director of Education, who seems worryingly unworried about taking the blame for an £8.2m over-spend and whose brother-in-law the priest has lit four candles for her; Cllr Jim Mallory, the man with a mild American (?) accent, chairman of the education committee, who reminds you of a 1917 Bolshevik and never smiles, and so on.

Previously my knowledge of local government was slightly greater than that of most people I knew because I had covered council matters as a reporter. This series greatly increases my knowledge and puts every other viewer on a par with me. It is inconceivable that our grandparents could have had such knowledge unless they actually worked in local government. Thus does television change our lives.

Theatre/Anthony Curtis

The Sound of Music

*Thirty-two years after its Broadway opening, followed by a long-running London production at the Palace Theatre, a Julie Andrews movie, now inexpensively available on video, innumerable David Jacobs-hosted Radio 2 re-playings of the hit numbers, "Do-Re-Mi" etc. that are continually being re-issued on cassette and CD – what on earth is there left to revive? Hasn't this particular onion been peeled so often that our tear-ducts have completely atrophied to it?

Ronald Lee and Shochiku Ltd., the producers of the show, think not, and audiences in the regions have for some weeks been endorsing that view. Now it occupies the venerable boards at Sadler's Wells until September 5 to suffer there an exposure to the more blasé theatregoers of the capital and its wicked coven of dramatic critics. The evidence of the rapturously appreciative first night suggests that Londoners are likely to raise the white handkerchief as readily as their provincial and country cousins and like them surrender to the piece with loud, lachrymose howls of approval.

The truth is that even a merely competent production – and this one is a good deal more than that – is well-nigh irresistible. With Richard Rodgers to ladle out the music like great dollops of molasses on a cake confected from the memoirs of Maria von Trapp – to whom all this really happened – and lyrics by Oscar Hammerstein, from a book by Lindsay and Crouse, the mixture cannot fail to slide down a treat.

It is cynically made out of a series of cleverly manipulated stock responses from the spectacle on stage of such surefire winners as nuns, children, Nazis and Alps. Liz Robertson plays the pretty postulant who drops out of the convent. She is sent by the kindly abbess to become governess to the seven children of a recently widowed naval captain whose *schloss*, her spacious new place of work, is overshadowed by the mountains on the Austrian-Swiss border. With a bobbed hair-cut and simply cut dresses, and looking indeed like a latter-day Julie Andrews, Robertson strikes the right note of simplicity and determination, as she gives her renderings of such numbers as "I have confidence in me..." She is partnered by the rather wooden, heel-clicking Christopher Cazenove, as her all too rapidly besotted employer. The pair certainly look good as they go through the formal *Laendler* dance. This first sign of things to come is observed by Jan Waters who gives her own stylish elegance to the other woman in the captain's life.

The basic story is that of *The Turn of the Screw* in reverse. The governess marries her boss in the end having aroused the latent goodness in the children rather than corrupting them. Less interesting in human terms, it is much safer box-office. The forces of good are represented by the nuns, led here by Linda Hibberd who raises high the nunnery's roof-beams with a spirited version of "Climb Ev'ry Mountain". Evil arrives only with the Austrian Nazis who emerge after the *anschluss* in the last act. In an affable performance as the Austrian culture-organiser, Robin Nedwell revealed how easy it was in that situation to compromise with them. Musical direction is in the capable hands of Nick Davies; and Wendy Toye, the supremo of the entire production, makes sure that no one puts a foot wrong, especially the excellent child performers.

Alastair Muir

Excellent child performers in action at Sadler's Wells

Music in Barcelona/Ronald Crichton

The Hamburg SO's 'Tannhäuser'

The Liceu, Barcelona's big and beautiful opera house, has been playing host to the Hamburg State Opera as part of the warming-up process for the Olympics. The invasion was generously planned: four performances of Harry Kupfer's 1990 production of *Tannhäuser* and two concerts with Schoenberg's *Gurrelieder*, given jointly with the Liceu's chorus and orchestra, even the full *Tannhäuser* company being insufficient for Schoenberg's late-Romantically exorbitant demands.

Kupfer, with his questing, sometimes perverse theatrical mastery, sees the Venusberg in *Tannhäuser* as a regime equally oppressive in its diametrically opposite way as the stuffy Wartburg with its traditional song contests. Modern attempts at staging Wagner's underground bacchanal are usually doomed to freakishness if not outright failure. Kupfer's tenable view leaves a producer free to make the Abode of Love more repellent than erotically exciting. In Hans Schavernoch's violently angular, black and white set – revellers milling restlessly around in the darkness – strange rites are enacted. At one moment a female head is raised aloft from an unseen, presumably dismembered, corpse. Venus and Tannhäuser lie on a large property bed outlined in neon strips.

The Wartburg valley is grey and grim. The pilgrims are transported to Rome in a ghostly Intercity train dimly perceived through mist. They return on foot, with picture hats. After their return the master-idea runs into trouble. At the moment of Tannhäuser's supposed redemption the Pope is borne on to the stage and a vast throng is seen behind him. But while Wagner jubilates in E flat major strange lights flicker, segments of grey walls open and close like giant lobster-claws, threatening to engulf the frantic-looking Tannhäuser, apparently rebelling even, perhaps most of all, against Grace. Irony could be rammed no further home.

In between the not wholly convincing outer acts there comes a brilliantly conceived and executed staging of the Hall of Song – not even the most loyal admirer of this opera normally expects to enjoy this act from beginning to end. Tiers of metal seating are covered in white dust-sheets, whisked away at a touch just before the guest arrive. There follows a highly enjoyable parody of a typical, ghastly North European civic function of the kind where white ties and tails (Reinhard Heinrich's costumes are modern) are worn at eleven o'clock in the morning while trays of glasses containing drinks that no-one wants are solemnly handed round. The women have long black dresses with enough spangles to look festive.

The function is carried through with choreographic precision. Even the actual contest did not have the usual dampening effect, so sharply were the competitors portrayed. Part of the success was due to the buoyant playing of the Hamburg orchestra under Gerd Albrecht. For once the march did not go flaccid. The normally thick-soup ensembles sounded almost transparent.

René Kollo's fraught, probing, Tannhäuser remains gripping in the narration and in the subsequent hysterical outburst, but in loud, high phrases the tone is worryingly unsteady. The Venus of Gabriele Schnaut, strong to the point of occasional aggressiveness, was warmly phrased. Linda Plech's Elisabeth was appealing except when, in the prayer, the voice pinched. Harald Stamm made a real person of the Landgrave, Kristin Sigmundsson's Biterolf was uncommonly forceful. Andreas Schmidt's Wolfram – restrained, moving, nobly sung, must surely be one of the finest since Herbert Janssen – a long time ago.

Meanwhile the Palau de la Musica Catalana welcomed the Montreal Symphony Orchestra under Charles Dutoit. Since their complete *Daphnis and Chloë* has been heard in London, I will only say that in Barcelona a famous local choir, the Orfeó Català, now celebrating its centenary, with a larger contingent than usual for this work, made a powerful contribution. The sonic effect was tremendous.

Instead of the Beethoven concerto deemed necessary to tempt a London audience to brave the rigours of Ravel, the Montreallers played the Fourth Symphony of one of this year's centenarians – Honegger. The Fourth was written for Paul Sacher and the Basel Chamber Orchestra. Swiss-born Dutoit gave an admirably clear and sensitive reading of this sober but muscular score in which Honegger, who had dual French-Swiss nationality, gives thanks for the return of peace and for Sacher's support.

The Hamburg visit was sponsored by Iberia airlines and the German Federal Government, the Montreal tour by Northern Telecom, the Canadian Government and the Quebec Ministry of Cultural Affairs.

The Montreal Symphony Orchestra

This fine orchestra returned to London for two concerts, one on South Bank and one at the Barbican. The Saturday-evening Festival Hall programme had to be changed and its piano concerto (the Beethoven First) removed, when Martha Argerich fought shy of a London appearance yet again. The replacements – Ibert's *Escales* and the Shostakovich Ninth Symphony – consoled any disappointment; indeed, in showing off the strength of the orchestra's 15-year-old partnership with Charles Dutoit, the new first-half bill of fare may even be accounted preferable to the old.

Not often does one encounter such *balanced* orchestral playing, not often such a natural-seeming interchange of ideas between conductor and orchestra. I guessed that the substitute works had been well routined earlier on the Montreal's current European tour, for both works came across with effortless clarity and a feeling of disciplined spontaneity impossible to counterfeit. In particular, the Shostakovich symphony, a Haydn-like work that conceals its seriousness beneath a disconcertingly impudent surface, was delivered with an ideal knack of knowing where to put on the pressure, where to relax it. Hints of deeper things were just that: hints, not nudges.

This is not an orchestra of instantly identifiable stamp, not a Czech or Berlin Philharmonic. In *Daphnis and Chloe* after the interval, the playing of the Montreal Symphony was, again, excellently clear and purposeful (and well-blended with the voices of the London Symphony Chorus). Here, however, I felt a want of thrill in the music, of lyrical inspiration in the timbres and phrasing. In Ravel, as indeed in so much of the French music he conducts, Dutoit keeps a cool head. His scrupulously unsensational approach is admirable as far as it goes – which, in the heady exhilaration of the finale, was just not far enough.

Max Loppert

The marvel was that when the players made the transition to the Barbican Hall on Monday, they still sounded a great orchestra. This is not often the case and it is a tribute to the beautiful tone quality and the orchestra's unfailing sense of balance that its class shines through in difficult acoustics.

Above all, they were never tempted into playing too loudly, a regular misjudgement in this hall. Charles Dutoit likes to keep the orchestra's sound neat and trim, preferring quality to quantity of decibels. In their performance of Falla's *El sombrero de tres picos* given in its complete form as the full ballet, the very precision of the ensemble brought its own sparkle to the score. Jill Gomez was the expert vocal soloist.

The other work in the programme was Tchaikovsky's Fifth Symphony and here excellence in matters technical just managed to outweigh some lack of dark, tragic, Russian passion. Dutoit gave us a very civilised view of Tchaikovsky, presenting as it were his public face with French elegance and immaculate etiquette, rather than the tormented soul of the private man. The last movement, however, had plenty of dash. Dutoit and the Montreal make a truly first-class team.

Richard Fairman

INTERNATIONAL ARTS GUIDE

ATHENS

Odeon of Herodes Atticus 21.00 Nederlands Dans Theater in choreographies by Jiri Kylian and Hans van Manen, also tomorrow, Sat and Sun (322 1459). Fri and Sat in Athens Concert Hall: John Wallace is trumpet soloist with Orchestra of the Friends of Music (722 5511)

BEAUNE

Beaune's annual Festival of Baroque and Classical Music opens on Saturday with a concert performance of Monteverdi's Orfeo by the Taverner Consort and Players, directed by Andrew Parrott. On Sunday Sigiswald Kuijken directs La Petite Bande in a programme of Bach motets. On the weekend of July 3/4, Gustav Leonhardt conducts Biber's Requiem and Philippe Herreweghe conducts Bach's Magnificat. Other artists at the festival, which runs till July 19, include William Christie, Jordi Savall and the Orchestre National de Lyon. All events take place at the Cour des Hospices of the Basilique Notre Dame (8022 2451)

BRUSSELS

***Monnaie** 18.00 Sylvain* Cambreling conducts Peter Mussbach's new production of Les Troyens, with Kathryn Harries as Dido. Also Sat and next Tues (219 6341)

GENEVA

Grand Théâtre 20.00 Gabriele Ferro conducts Jerome Savary's production of Attila, with Samuel Ramey. Repeated on Sat and next Tues (311 2311)

LONDON

DANCE

Coliseum 19.30 English National Ballet in works by Stevenson, Brandstrup and Parsons. Tomorrow, Fri, Sat: Ben Stevenson's new production of Cinderella. Opening on June 29: Ballet of the Deutsche Oper, Berlin (071-836 3161)

Royalty Theatre 19.30 Rambert Dance Company in works by Merce Cunningham, Mark Baldwin, Paul Old and Richard Alston, also tomorrow. Fri and Sat: new work by Guido Severien (071-494 5090)

OPERA/CONCERTS

Covent Garden 19.30 Samson et Dalila with Vladimir Popov and Olga Borodina. Tomorrow: Der fliegende Holländer (071-240 1066)

Barbican 19.45 Mstislav Rostropovich plays cello concertos by Andrzej Panufnik and Dvorak. Sun and Mon: Michael Tilson Thomas conducts Bernstein's On the Town, with Thomas Hampson and Frederica von Stade (071-638 8891)

Royal Festival Hall 19.30 Christoph von Dohnanyi conducts the Philharmonia in works by Webern, Mozart and Brahms, with Kyung-Wha Chung violin soloist. Tomorrow: Ravi Shankar (071-928 8800)

LYON

A cycle of Brahms symphonies, concertos and chamber music is being given by the Orchestre National de Lyon from June 26 to July 11. The opening concert on Fri at the Cour de l'Hôtel de Ville is conducted by Emmanuel Krivine, with Augustin Dumay soloist in the Violin Concerto. Dumay also plays the Double Concerto on Sat with cellist Inbal Segev, and gives a recital of Brahms violin sonatas next Tues with Maria Joao Pires. The closing performances on July 10 and 11 are devoted to the German Requiem (7860 3713)

NEW YORK

THEATRE

● Jake's Women: Alan Alda stars in Neil Simon's latest play about an ageing writer trying to come to terms with the women in his life, past and present (Neil Simon, 250 West 52nd St, 307 4100).

● Dancing at Lughnasa: the story of five unmarried sisters living in 1930s rural Ireland, production by Irish National Theatre (Plymouth, 236 West 45th St, 239 6200).

● Jelly's Last Jam: a musical celebration of the life and art of the self-proclaimed inventor *of jazz, Jelly Roll Morton* (Virginia, 245 West 52nd St, 239 6200).

● Tony n' Tina's Wedding: the never-ending nuptials of Anthony Angelo Nunzio and Valentina Lynne Vitale, with audience participation (St John's Church, 81 Christopher St, 279 4200).

PARIS

Théâtre de la Ville 20.30 Tanztheater Wuppertal in Pina Bausch's latest dance creation. Daily till July 4 except tomorrow, Mon and next Thurs (4274 2277)

Palais Garnier 19.30 Ballet de l'Opéra de Paris in choreographies by Neumeier, Lander and Petit. Tomorrow and Sun: Il barbiere di Siviglia (4017 3535)

Opéra Bastille 19.30 Placido Domingo sings title role in Otello (also next Tues). Vladimir Atlantov sings in Saturday's performance (4001 1616)

Opéra Comique 19.30 Rossini double bill: La scala di sieta and L'occasione fa il ladro (4286 8883)

SPOLETO

The Festival of Two Worlds in the Umbrian hill town of Spoleto opens tonight with Donizetti's Le duc d'Albe, conducted by Alberto Maria Giuri in a staging by Filippo Sanjust based on Visconti's 1959 production (Teatro Nuovo, runs till July 12, next performance on Sat). From tomorrow till Sun in the Church of San Nicolo, there are daily performances by Maguy Marin Company, leading representative of new French dance. A new play by Carlo Repetti, entitled Verso la Fine dell'Estate (Towards the End of Summer), has its premiere on Fri at the Teatro Caio Melisso, running daily except Mon till July 5. Next week: new production of Die Meistersinger von Nurnberg and performances by Bolshoy Ballet. The festival runs till July 12 (6-3210 288)

STUTTGART

A Stuttgart Ballet production of Richard Rodgers' dance-musical On Your Toes is showing this week at the Staatstheater, daily till Sun. Next Tues: Rossini's La scala di sieta, conducted by Alberto Zedda. Sun and Mon in Liederhalle: Serge Baudo conducts works by Berlioz, Schumann and Dutilleux. The repertory at the Kammertheater includes the first German production of Rodney Ackland's 1988 play Absolute Hell, plus works by Ibsen, Kleist and Thomas Bernhard (221795)

LUDWIGSBURG FESTIVAL

This week's events include a performance of Haydn's Seven Last Words tomorrow by Walter Jens and the Melos Quartet. Fri: recital by Cheryl Studer. Sun: Kurt Masur conducts the Leipzig Gewandhaus Orchestra in Beethoven's Fourth and Sixth Symphonies. Mon and Tues: Gidon Kremer. The festival runs till early October (7141-949610)

VIENNA

Staatsoper 18.00 Tannhäuser with Toni Krämer, Gabriela Benackova, Kurt Moll and Boje Skovhus. Tomorrow and Sun: Minkus' ballet Don Quixote. Fri and Mon: Cerha's Baal. Sat: Tristan und Isolde with Behrens (51444 2960)

Volksoper 19.30 Zemlinsky *double-bill: Eine florentinische* Tragödie and Der Geburtstag der Infantin. Tomorrow: Nabucco. Sat: Evgeny Onegin (51444 3318)

Musikverein 19.30 Leopold Hager conducts Vienna Symphony Orchestra in symphonies by Gottfried von Einem and Mahler, *also tomorrow. Fri and Sat:* Odessa Philharmonic Orchestra (505 8190)

ZURICH

Opernhaus 19.30 Ralf Weikert conducts Cesare Lievi's new *production of Capriccio, with* Gabriela Lechner, Roland Hermann and Olaf Bär, also Sat. Tomorrow: John Cranko's production of Romeo and Juliet. Fri: La bohème with Mirella Freni. Sun morning: Rafael Frühbeck de Burgos conducts *symphonic works by Villa Lobos*, Dvorak and Stravinsky (262 0909)

Tonhalle 19.30 Claus Peter Flor conducts the Tonhalle Orchestra in works by Mendelssohn (201 1580). Tomorrow: Bruno Leonardo Gelber plays Beethoven's First Piano Concerto with *Zurich Chamber Orchestra* (252 1737)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
0000-0020, 2000-2230 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0630-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0630-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Wednesday June 24 1992

Russia and the IMF

RUSSIA's economic reform strategy is showing alarming signs of drift. But if Russia's reform collapses, the west will bear a large part of the blame. Further reforms will remain on hold until the International Monetary Fund *finally* reaches an agreement with the Russian government and unlocks the promised western aid. The longer the IMF prevaricates, the less likely it is that these reforms will occur.

At first sight, the IMF's caution appears justified. The promotion of Mr Gaidar to prime minister *cannot disguise the fact that* in recent weeks the grip of the reformers has *slipped* and the influence of the military-industrial lobby within the cabinet has risen along with the inflation rate.

Yet western advisers do not have to travel many miles from the sheltered grandeur of Moscow's Metropol hotel to understand the source of the political *and economic tensions with* which Mr Yeltsin and his government are struggling. *While* the government's macroeconomic policy failures are easily visible to Moscow-based statisticians, it is Russia's distorted and backward industrial structure that is the root of the budgetary and monetary mess.

The disintegration of the old command system has left many enterprises without markets for their products or money to pay their workers. They are currently being kept afloat by unpaid debts and subsidies from the govern*ment budget* deficit financed by the central bank. To withdraw these *subsidies* would mean the collapse of enterprises and the disintegration of the economic and social stability of whole cities and regions. Such an implosion would be economically wasteful. For Mr Yeltsin it would also be politically inconceivable.

Convertible rouble

If reform continues, privatisation and the growth of the service sector will soon begin to provide *alternative sources of employ*ment, while a convertible rouble will open up new export markets and provide the viable enterprises with imports at reasonable prices. A more gradual withdrawal of government subsidies would then *inevitably* lead to the *closure* of many enterprises.

Yet the government will need *both time* and western aid if these structural reforms are to work; and the reformers are unlikely to receive either unless the government can sign an agreement with an IMF which apparently wants it to close its budget deficit now.

Hyperinflationary threat

The IMF is, of course, correct to argue that hyperinflation will quickly de-rail these necessary structural reforms. Only when the government stops printing money will the hyperinflationary threat *recede and currency convertibility* have any chance of success. Moreover, *commitments from the Russian* government mean little or nothing if the rouble printing presses in the other republics are working overtime. The sooner that Ukraine – the worst culprit – follows Estonia's example and leaves the *rouble* area, the better.

Harder to understand is the IMF's *apparent desire that the* Russians should not only stop fin*ancing the budget deficit* by printing money, but should also balance the budget before aid is made available. Economic logic does not require such a commitment; and political logic makes meeting it impossible. The motivation for the west's $24bn aid package was surely to allow the government to bridge the gap between its commitments and outgoings.

What the Russian government needs is creative ideas on how to finance its budget deficit in a non-inflationary way. For the moment, the gap will have to be partly *closed by foreign aid, conditional* on structural reform as well as macroeconomic stability. But western aid should be a short-term crutch, not an artificial limb. A resource rich country should have little trouble in raising finance *from abroad: by selling oil futures,* land or even index-linked debt.

The west is running out of time. The interminably slow pace of the IMF negotiations must be accelerated – and the current ream of petty disputes solved – before the *chance of reform is lost. Even if* an agreement were to be reached in the next fortnight, the economic and political pressures would make the risks of failure high. But for the IMF to delay for so long that the opportunity to sign an agreement with a reformist minded government disappeared would be a greater failure.

Health care in London

THE PROBLEM of London's hospitals has taxed health administrators for the better part of a century. Great monuments to a long-faded imperial glory, hospitals *such as Guy's and Bart's* swallow a disproportionate share of health service resources. Successive governments have backed away from closing any of these well-loved and skilfully defended institutions.

Now Mrs Virginia Bottomley, the health minister, is determined *to cut the Gordian knot.* She has commissioned an inquiry on future health provision in the capital from Sir Bernard Tomlinson who is due to report in the autumn. Yesterday's report on London's health care from the King's Fund – *commended* by Mrs Bottomley – appears to be a *stalking* horse for Sir Bernard's recommendations.

The most urgent cause of Mrs Bottomley's welcome initiative has been the consequences of the government's health service reforms. Hospital treatment is now commissioned by health authorities and family doctors *spending limited budgets*. They find that treatment in London's specialist and teaching hospitals is often more expensive than in general hospitals elsewhere. Some family doctors have set up mini-cottage hospitals in their health centres, carrying out *minor* surgical procedures previously pro*vided by hospitals.* As the internal market begins to bite, London's hospitals are losing contracts to their competitors.

Higher overheads

The reasons for this lack of competitiveness are several. London's overheads are higher, especially the cost of hospital sites. The training responsibilities of the *teaching hospitals require additional* staff and resources. The specialist hospitals argue with some justification that, as national institutions, they attract the most *complex cases from across* the country. Whatever the reasons, the development of competition between providers means that such cost disadvantages will grow.

At the same time, *inner London* is losing population, as the people *these* hospitals grew up to service move out to the leafy suburbs. The process of reallocating health service resources away from the capital began in the 1970s. But it has been given added impetus by the allocation of funds to regions and districts more closely in line with *population*.

In most other markets, losing market share in this way leads to closure (in the absence of scope to increase competitiveness). For large and complex organisations such as hospitals, the question of "exit" is *less simple: apart from* the loyalties which many command in local hearts, there are life-saving resources and skills which cannot be squandered like surplus plant and machinery. If the demand for health care in London's hospitals *is to contract*, a planned decline is preferable.

Plausible strategy

Yesterday's report from the King's Fund sets out a plausible strategy by which this could be achieved. A task force should be set up to carry out a fundamental review of the capital's needs – in *consultation* with the people of London and their doctors. This review would inevitably lead to two further steps: a reshaping of hospital-based acute services in London; and the reorganisation of medical education and research.

The report also makes out a powerful case for diverting the *resources consumed* by the prestigious inner London hospitals to improving the quality of the capital's health care overall. Family doctor and community health services have been *neglected*, the report argues: too many Londoners are served by over-stretched single-handed family doctors working from decrepit lock-up premises. And the provision of hospital services in much of the capital *has suffered; the quality of* accident and emergency services, *for* example, often leaves much to be desired.

Inevitably the headlines will concentrate on the *recommendation* that 15 hospitals be closed. *Campaigns of* greater or lesser speciousness will agitate to save particular favourites. But the task of sorting out London's hospitals is too important to fall victim to *such pressure group tactics. It is* time for a fundamental review followed by determined political action to implement its recommendations.

Paul Betts and David Gardner on air transport liberalisation in Europe

Clouds over open skies

Hopes were high yesterday that the European Community's agreement on "open skies" would lead to a sharp *reduction in the* cost of European air travel. But such expectations are likely to remain grounded for some time to come.

"I'm not pretending everything *will be fine from January 1993,*" Mr Karel Van Miert, the EC transport commissioner, said yesterday, mindful of the euphoria which greeted two previous airline deregulation *packages, in 1987 and 1990.*

Both failed to drive down fares more than marginally. And even though the latest package will introduce greater competition and create some new opportunities to increase consumer choice and services, the financial problems of airlines combined with the high cost of operating air services in Europe are expected to keep the pressure on fares.

In theory, at least, European airlines will be free to set their own fares from the beginning of next year. They will also be free to fly between any EC country. They will operate under a single EC air licence and from April 1997 they will be free to run domestic services in other member state.

The package – the most far-reaching in the EC's gradual process of air liberalisation – is *designed to encourage greater com*petition and bring down European air fares. On average, these are still at least a third higher than in the US.

In practice, the notion that deregulation will send fares crashing in Europe could not be more misleading. European airlines are operating *under the most difficult financial* conditions since the second world war. "You only have to look at the financial results of airlines to see they cannot afford to cut fares," commented Mr John Parr, director-general of the Air Transport Users Committee, the UK consumer pressure group.

The combined losses of European airlines last year of $1.3bn were greater than their combined profits over the past 10 years. Airline traffic has yet to show a sustained recovery following the slump caused by the Gulf crisis and the recession.

Established carriers and potential entrants alike are unlikely to rush to open new routes in a European market burdened by increasingly heavy navigational and airport take-off and landing charges. European airlines *estimate* the start-up costs of a new route in Europe at *between £10m and £12m.*

While trying to generate more competition with its latest package, the Commission risks putting further pressure on European air fares by its separate proposal to introduce value-added tax on European *airline tickets. The European airline* industry claims that the proposed 9 per cent VAT on tickets would add about $1bn on airline costs alone. The eventual abolition of intra-European duty-free sales and the proposed introduction of a 3 per cent *carbon tax will all eventually add* expenses, thus reducing the possibility of large fare reductions.

A bigger and more immediate problem is Europe's inadequate airport and air traffic control infrastructure. Although European coun*tries are finally attempting to* harmonise and co-ordinate the modernisation of their different air traffic control systems, this is likely to take several years, with the risk of increasing congestion in the air preventing airlines from exercising *their new freedoms.*

Despite last year's air travel slump, delays to European airline services because of infrastructure problems increased by 13 per cent, according to the Association of European Airlines.

Congestion at such busy airports *as Heathrow or Frankfurt* could also squeeze out new entrants because of the lack of available take-off and landing slots. At the same time, airlines with a dominant position will have an important competitive advantage.

The EC has so far left out of its liberalisation package new regulations to allocate slots at congested airports to ensure fair competition and access to all airlines. The Commission had wanted to pool underused or vacant landing and take-off *slots at main airports so that* at least they would be redistributed to entrants. This provoked fierce opposition from established airlines. But Mr Van Miert said he was encouraged by UK assurances that it would address this issue as a prior*ity during its presidency of the EC.*

Apart from these structural problems, the success of liberalisation and its eventual impact on air fares will ultimately rest on the goodwill of EC member states. Sir Michael Bishop, chairman of British Mid*land, the UK carrier,* warned yesterday that in the next few weeks, "we are likely to see further attempts by some countries to slow down the liberalisation process".

Sir Michael said the experience of *US deregulation suggested that* competition came from the ability *of new airlines to secure access to* routes and airport facilities, and not simply by the removal of existing restrictions. He argued that many routes in Europe continued to be dominated by state-owned airlines with little incentive to compete.

He also claimed that the only routes in Europe which had so far benefited from liberalisation were those such as Heathrow to Paris, *Amsterdam and Brussels*, where a third carrier has been able to compete against the respective national carriers. "On routes where there is now only limited, or 'organised', competition – like Brussels to Rome – there can now be greater *competition*," Mr Van Miert said, adding that carriers such as British Midland now "have real *additional* opportunities to expand their business in Europe". Sir Michael has claimed that business travellers pay up to 25 per cent too much for their air fares on many European routes because of insufficient choice.

The EC package itself was the result of a compromise between ardent supporters of liberalisation such as the UK and the Netherlands and other less enthusiastic countries like France, Germany, Italy, *Greece and Spain. While removing* price controls and creating opportunities to fly in other member countries, the package also contains what the EC describes as "safeguards" which could ultimately undermine liberalisation.

These apply both to air fares and to European domestic air services. *Although*, under the package, airlines will be able to set fares on intra-EC flights, governments will still be able to intervene if they consider fares either unreasonably high or low. It will then be up to the other government to appeal to the *Commission to overrule the deci*sion.

In some respects, the system could turn out to be more restrictive than the current "double disapproval system", whereby an air fare can only be refused if both coun*tries at either end of a route object* to it. Under the new scheme, much will depend on the speed of the EC arbitration process in the event of one country deciding to veto a fare. "At least under the 'double disapproval' system a member state was not able to disapprove a fare unilaterally as will now be the case," a UK airline executive remarked.

The package has also introduced certain *so-called safeguards* on the issue of open market access. Individual governments will continue to control aviation within their own territories and much will thus depend on *their attitude* to entrants in their markets.

Some countries are clearly expected to adopt a more restrictive attitude to competition in their domestic market than others. As Lord King, British Airways chairman, said with heavy irony yesterday: "I think the other European airlines will seek to protect their own patch. I think Great Britain, *oddly enough*, will probably try to play by the rules, and I admire the way the French play by theirs."

EC transport ministers also agreed on a *transition* period of four years and three months before allowing airlines to operate domestic services in another member state.

Although airlines will be *able next year to fly* to a second destination in another country (a British carrier could fly from London to Paris and then on to Nice), they will only be allowed to fill a maximum of half their seats in a foreign stopover until 1997. This is expected to make it more costly *for airlines to open* such stopover routes especially since most travellers prefer direct flights. However, as of next year airlines will be able to fly between two other countries without starting or ending in their home state.

The transition period is also expected to give national carriers more time *to consolidate their own* domestic and international market position before full liberalisation. All the big airlines have been scrambling to forge partnerships and have sought equity investments in other carriers to strengthen their base before deregulation.

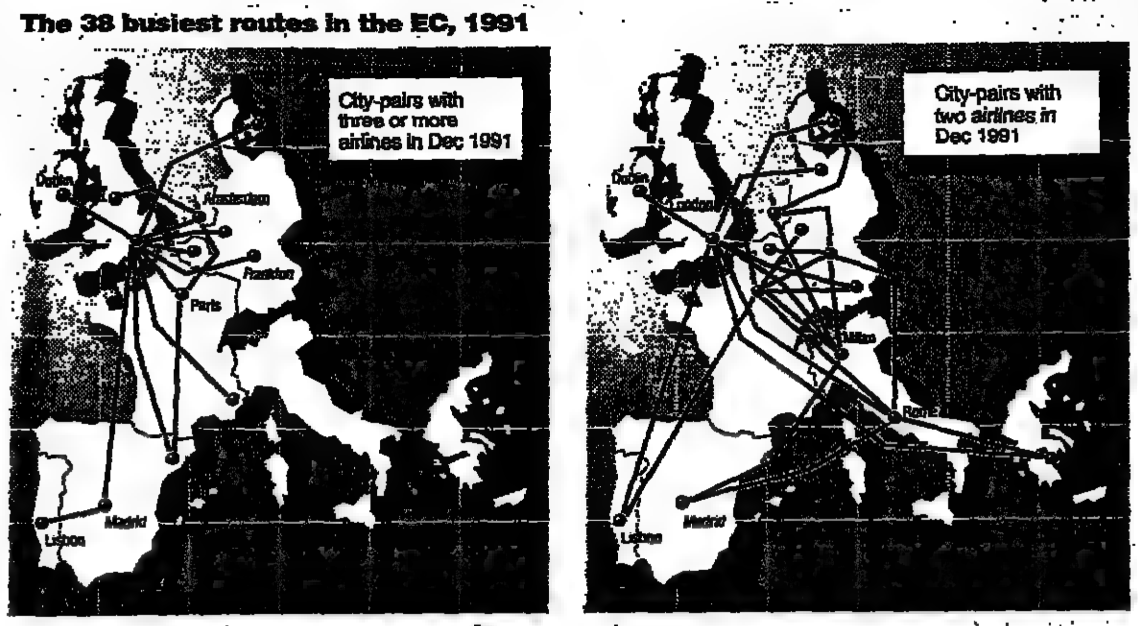
Air France has acquired a stake in Sabena *of Belgium* as well as absorbing the French carriers Air Inter and UTA; Lufthansa is looking at investing in smaller European carriers like, among others, Lauda Air of Austria. BA and KLM Royal Dutch Airlines are expected to resume *merger negotiations* later this year.

The big carriers have argued that consolidation of the airline industry was necessary if Europe was to compete against large US and Far Eastern carriers in an increasingly *global airline market.* But this trend could also undermine competition in a liberalised European market by squeezing out entrants or forcing them to ally themselves with one or other of the large airline groups.

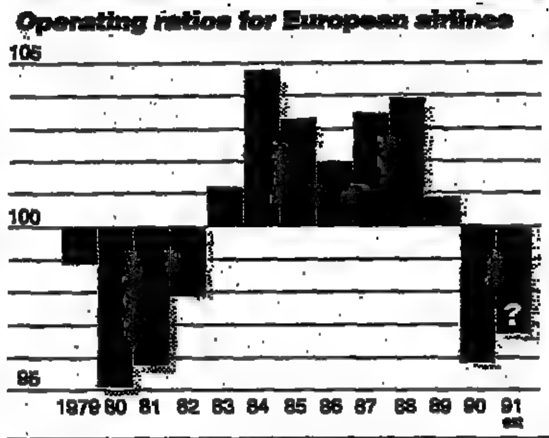
The fact that most large Euro*pean carriers are state-owned* is expected to complicate further the *liberalisation process. Scandinavian* Airlines System (SAS) said yesterday it hoped clear rules would be established on the permitted extent of state support for EC airlines to prevent them from cutting fares artificially to drive out competitors and subsequently raising them.

But the package has at least provided the legislative framework to encourage the development of a multi-airline industry in Europe with greater competition and eventually lower fares. However, as Sir Michael Bishop warned: "There is still a long way to go before European consumers can enjoy the practical benefits of highly competitive, low cost air travel, and we should not underestimate the difficulties of implementing the package."

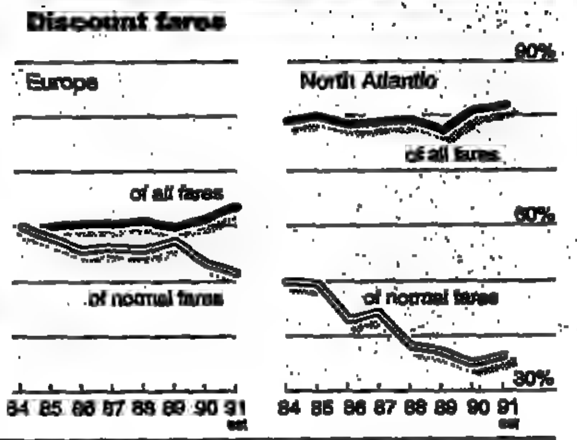
The 38 busiest routes in the EC, 1991



Operating ratios for European airlines



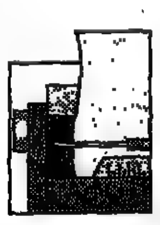
Discount fares



PERSONAL VIEW

The spectre at the fast

By Michael Lipton



Pollution and depletion were part of the green "new consciousness" of the 1960s. In the oil-shocked 1970s and the individualist 1980s, *they* increasingly lost *their political salience. Yet in the* interim, resource degradation had speeded up so that in the 1990s there are renewed concerns, this time including ozone destruction and global warming. Why?

The answer was not even on the agenda of the UN Environment Conference in Rio de Janeiro. It is *quite simple. Since 1978, several* leading governments in rich countries have increasingly moved (a) to squeeze out inflation, (b) to abandon fiscal policy as a means to that end, and therefore – especially because direct control of the money *supply has proved unfeasible* – (c) to rely increasingly on forcing up real interest rates. Dramatically rising rates in 1977-79, sustained ever since, have increased the incentives – to families, businesses and governments – to use up natural resources now, and to ignore the consequences later. These same high interest rates, too, have drained the cash with which governments might otherwise have protected *resources for the future.*

Long-term interest rates in real terms, that is, net of expected inflation, are a classic market signal. They tell every householder and *every* business the market value of resources now, compared to several years hence. *The arithmetic of the* signalling is fierce. Suppose an Indian farmer has two ways to farm. The extractive path gets a high return for 15 years, but then *the land is exhausted* and useless. The sustainable path gets a lower *return, for ever. If the farmer faces* a high real rate of long-term interest, say 5 per cent, extractive farming looks attractive. Even if it is only twice as profitable each year – for 15 years – as sustainable farming for ever, the incentive is to extract now. If the real long-term rate of interest is lower, say 2 per cent, *extractive farming* for just 15 years has far less appeal. It has to be *almost four times as profitable* each year – while it lasts – to be preferred. Farmers facing low interest rates usually choose sustainable paths.

Poor countries are tiny players in international capital markets. They *must accept interest rates as they* are made in New York, Frankfurt and Tokyo. *Prime, real long-term* rates in the 1950s and the 1960s stood at some 1 per cent to 1.5 per cent. Since 1978 they have hovered between 4 per cent and 5 per cent, and the World Bank predicts they will climb even higher. Its prophecy, made in May 1991, looks like being fulfilled. Even though nominal rates have fallen in the US, Japan, and parts of western Europe, this has been more than matched by *the fall in inflation, actual and* expected.

These rises in real interest rates have been amplified for developing countries. Western banks pushed most of their Third World loans from fixed to variable rates in the late *1970s; later*, the dwindling creditworthiness of many borrowing governments meant they had to pay steadily widening premiums. Final borrowers – smallhold*ers and urban businesses in India* and Kenya – faced even wider margins via conditions on aid which forced down domestic interest rate subsidies.

The exploding interest rate told the borrower that – whatever the *rich world's* lobbies and leaders may say – the markets value the long-term survival of rainforest or ozone, and even of poor rural people's water and fuel, at almost zero. Even for Third World governments that wanted to provide resources or subsidies for conservation, rising interest rates drained their ability *to do so. In 1972, interest payments* – at home as well as abroad – comprised 5.6 per cent of spending, including net lending, by central governments in non-oil developing countries; by 1988, they had reached 18.7 per cent.

Malthusian pessimists warn that extra people will eventually degrade the world's resources and thus destroy themselves. The market *case against such pessimism*, however, is powerful. It states that, as resources threaten to run out, their price increases, so that families, businesses and governments are stimulated to conserve, replace, or even discover new deposits of them.

*But the developed world, by forc*ing up real interest rates to unprecedented peacetime levels for 14 years, has broken the transmission, from demographic challenge to con*servationist response.* Participants at Rio warned of impending famine, dearth, and depletion. The rate of interest is our spectre at their fast.

If OECD countries choose to squeeze out inflation, they can do so. But if they persist in doing so by *means of sky-high* real rates of interest, they will increasingly encourage production techniques which deplete resources and cause pollution. The grandchildren of those who live by *the market*, as well as their new converts in the developing world, may then die by the market.

The author is professorial fellow in economics at the Institute of Development Studies, Sussex University.

Edward Mortimer

Alternatives to violence

FOREIGN AFFAIRS

CSCE commitments to protect national minorities must be linked to economic benefits

The news from central and eastern Europe gets more depressing every week:

● The long agony of Bosnia-Hercegovina continues, while it is anyone's guess whether the next Yugoslav war will erupt in Kosovo or in Macedonia, or both at once. In either case the chances of containing it within the frontiers of the old Yugoslavia seem slim.

● Czechs and Slovaks agree to break up a state which had seemed one of the most hopeful and civilised in the region. At least there is no bloodshed between them, so far; but the dissolution of the state, combined with the problem of the Hungarian minority in Slovakia, the bitter Slovak-Hungarian dispute over the Danube dam, and lurking Hungarian aspirations to recover territory lost after the first world war, provides all the ingredients for a pre-1939-style border conflict. And Hungary could at any moment find itself in a similar conflict with Serbia or Romania.

● In Georgia and Moldova separatist groups look to remnants of the Soviet army for support, and President Boris Yeltsin threatens Russian intervention if fighting continues. The Baltic states and Ukraine, still hosts to unwanted Russian troops as well as large Russian-speaking minorities, look nervously on. Fighting continues between Armenians and Azeris in and around Nagorno-Karabakh. Within the Russian federation Chechen-Ingushetia and other ethnic enclaves are defying the central government.

● Throughout the region, high unemployment is eroding support for economic reform, while politicians are locked in Byzantine power struggles incomprehensible to ordinary people, but often envenomed by selective leaking of "evidence" from secret police files.

It all seems a far cry from the euphoric autumn of 1989, even if few really imagined at that time that history had ended and we should all live happily ever after. In fact just about every one of these problems was foreseen then, which makes it all the more frustrating that so little seems to have been done to solve them.

Of course many east and central European politicians are behaving very foolishly, and they should not be allowed to escape responsibility for the tragic consequences of their actions. Nor is it true that the west has done nothing. Significant sums of money have been and are being provided. Not adequate sums, perhaps, but what would have been adequate? Even the extraordinary transfers from west to east Germany seem barely to suffice, and assistance on that scale to the whole of eastern Europe, including the former Soviet Union, would imply trillions of dollars annually.

One area where the west, and especially the European Community, has clearly fallen short is market access. Even the three central European states which have signed association agreements find the west European market all but impenetrable to goods they can produce at competitive prices, such as steel and food; and that in turn discourages private investment.

> **Many politicians are behaving foolishly, and they should not be allowed to escape responsibility**

A more generous policy in that respect might not yet have had a direct impact on living standards; but it would have contributed to a more hopeful atmosphere in the region, in which the inevitable ethnic conflicts might have been easier to defuse. Above all, I believe that a greater effort should have been made to link western assistance to intraregional co-operation, building on the example of the Marshall Plan.

That applies to co-operation between states, but could also apply to inter-communal relations within states. In the case of Croatia the EC tragically missed its opportunity: for a long time it refused to contemplate recognition and then, when war had been raging for months, it rushed to recognise, brushing aside its own arbitration committee's report that conditions on minority rights and civil liberties, formally set by the EC itself, were not yet adequately fulfilled. Had those conditions been posed at the outset they might have given the EC some real leverage over the Croat leadership, and hence also some credibility in the eyes of the Serbs. But then a similar error was perpetrated in the Bosnian case, recognition being made conditional not on agreement between the communities but on a referendum which only dramatised and polarised the difference between them.

Since similar conflicts are now erupting or about to erupt in many other parts of central and eastern Europe, it is not too late to learn some lessons from the Croat and Bosnian tragedies. Slovakia resembles Croatia in many respects. It will need recognition and help from the EC, and that fact must be used to ensure that the Hungarian minority is adequately represented and protected, and that disputes between Slovakia and Hungary are settled peacefully.

In the former Soviet Union, it is becoming very urgent to dissuade Mr Yeltsin, who is clearly under intense pressure from Russian nationalists, from behaving like the Serbian leader, Mr Slobodan Milosevic. If he imagines that his new love affair with Washington would survive a Russian military intervention in Moldova or Georgia he should be disabused without delay.

The problem of the Russian minorities in other ex-Soviet republics is a real one, but the worst possible solution would be a series of Russian military expeditions to support them. The Russian foreign ministry is aware of this, and has been seeking alternative solutions, notably by supporting measures to give stronger international protection to minority rights at the Helsinki follow-up meeting of the Conference on Security and Co-operation in Europe (CSCE), which is now nearing its climax.

The Dutch proposal to appoint a CSCE high commissioner on national minorities, whose job would be to give early warning and where appropriate take "early action" to defuse minority issues that threaten to develop into conflict, is now the subject of detailed negotiations and has a good chance of being adopted. So has a British proposal to expand the range of available procedures for resolving disputes, including disputes within states, "which have the potential to develop into armed conflict". (Since most such disputes in Europe involve national minorities, the two proposals are closely related.)

A further step, which might be considered at a future meeting, would be to establish a prototype agreement between a national minority, the state where it resides, and the state (if any) with which it has an ethnic or linguistic affinity. Such an agreement could spell out the obligations as well as the rights of the minority, and enable the "protecting" state to contribute to a solution of the problem without questioning the sovereignty or borders of the state in which the minority lives. No state could be obliged to sign it, and in each case the parties could agree to vary its precise terms to suit their particular circumstances; but having a standard prototype available might give both sides greater confidence that they had something to gain from a negotiated solution.

But all such devices depend ultimately on the willingness of parties in dispute to make use of them, and to avoid resorting to violence. Too often the slide to war outpaces the diplomats, whose good intentions are nullified by political pressures at home. In such situations CSCE commitments will only be taken seriously if states that have something to offer – the US, Japan, above all the EC – make a clear connection between observance of those commitments and tangible economic benefit.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

ERM debate in need of a proper airing

From Mr Michael Oliver.

Sir, Martin Wolf's timely rejoinder on the poor performance of nominal domestic demand over the past five years ("Destabilising effects of exchange rate stabilisation", June 22) is a welcome contribution on the ERM debate.

As Mr Wolf notes, not only did Mr Nigel Lawson's misplaced enthusiasm for quasi-international monetarism impair the excellent inflation performance of the early 1980s, but it again highlighted the potential *Dies Irae* for pegged exchange rate systems.

Although the debate has supposedly moved on from the late-1980s and we are now "irrevocably" committed to the ERM, it would be foolish not to question this pledge while the recovery remains sluggish. What is the point of a policy framework which offers the promised elixir of low inflation, while exacting the price of rising unemployment and poor growth?

Perhaps it is not so much the monetarists who are crying out for a return to the past, but disgruntled economists from the "golden age" haggling after some form of parity fixing in a system which is fundamentally flawed.

Until the government gives a proper airing to this stultified debate (preferably via a Treasury select committee), the reluctance to consider any alternative exchange regimes will condemn the UK economy to an anaemic monetary policy with persistent low rates of growth.

Michael Oliver,
Bristol Polytechnic,
St Matthias,
Oldbury Court Road,
Fishponds,
Bristol BS16 2JP

Air fare competition impossible if airlines remain subsidised

From Mr Thomas McDonogh.

Sir, Great expectations and hopes were kindled in the minds of the travelling public by talks on liberalisation of air transport in Europe, particularly in regard to cheaper fares.

Most thought that what had happened in the US would also happen in Europe with competition being keener and with fares accordingly being reduced. However, what has happened in Europe has been very much a damp squib from the consumer's point of view for the simple reason that air transport in Europe is organised very differently from that in the US, in that it is dominated by national airlines, most of which are technically bankrupt and losing vast sums of taxpayers' money because of overstaffing and inefficiency.

There is little or no competition on most routes, and certainly if the fares were to reflect the operating costs of these airlines, they would be much higher than they are at present. However, this does not prevent new entrants being deterred by unfair competition, predatory pricing, capacity saturation and denial of prime-time slots at major airports. Most new entrants to the aviation business, attracted by liberalisation, are private airlines. But private airlines whose motive is profit cannot compete in a field where profit is a secondary consideration.

The European Commission, unfortunately, is understaffed and powerless to enforce regulations which would ensure fair competition, and thus a fair deal for consumers. In Europe at present there are roughly seven airlines technically bankrupt, and these are Air France, Alitalia, Iberia, Olympic, Aer Lingus, TAP and Sabena.

There will be no real competition and liberalisation as long as these national airlines receive massive support from the various governments, a support which is denied to the private sector.

Thomas McDonogh,
chairman,
Air Transport Users Committee,
22 Merrion Square,
Dublin 2

Stress must be seen in the social context

From Ms Dawn Lyons.

Sir, Jenny Cozens' "How stress can make you tick at work" (Management, June 19) is an informative account of developments of psychologists' work on stress. However, as in much work on stress, she neglects contributions from other disciplines such as sociology.

The renewed emphasis on the individual as a source of stress is not only symbolic of 1980s individualism but, more important, consistent with psychological analysis which considers individual psychology without an understanding of social context. There is no recognition of the relationship between the subjective experience of stress and the social conditions which may give rise to it. Instead we are offered so-called "objective" measurements such as heart-rate or a discussion of personality variables.

Dealing with stress at work through the use of workplace counselling services and stress management courses is commonplace in North America. Increasingly, such facilities are being introduced in British work organisations. Although employees may derive some genuine benefit from these facilities, it is important to recognise their implications. By focusing on the individual, questions of the structure and organisation of work are made into personal problems. Psychologists would help employees more if they were to counter rather than reinforce the prevalent but dangerous belief that some people "naturally" cope better than others.

Dawn Lyon,
research fellow,
University of Birmingham,
Edgbaston,
Birmingham B15 2TT

No tears for the NEDC

From Mr Bill Daniel.

Sir, We should not shed too many crocodile tears over the demise of the National Economic Development Office. It was established in circumstances and an environment quite different from that faced today.

The challenge to the Department of Trade and Industry in its new role will come from strong and intensifying competition as European and global markets become increasingly integrated. To promote the future competitiveness of the UK economy will require radical thinking and original policy developments by the Department of Trade and Industry. These will depend for their success on unbiased, well-researched empirical facts and analysis.

I hope such independent research will play an increasing role in the development of policies appropriate to the national and international environment of the 1990s.

Bill Daniel,
director,
Policy Studies Institute,
100 Park Village Estate,
London NW1 3SR

No denial of sovereignty

From J A Throup.

Sir, I would like to answer the question posed by Mr Bryan Cassidy (Letters, June 11), namely, "isn't a referendum a denial of the sovereignty of parliament?"

My answer is no. It cannot be a denial of sovereignty as only parliament can instigate its use. It is presumably intended for use, at parliament's discretion, to decide an issue of importance which requires a black and white decision and for which public opinion is unclear to parliament.

J A Throup,
17 Queens Road,
Kingston-upon-Thames,
Surrey

Too much re-packaging of education initiatives

From Mr Ansel Harris.

Sir, The Training and Enterprise Council initiative – launched in March 1989 – seemed to many to be essentially the re-packaging of earlier government initiatives in the field of employment training and enterprise encouragement that proliferated in the 1980s. They included the Manpower Services Commission, Training Agencies, Enterprise Agencies, Local Employer Network Service. It was expected, or hoped, that the Tecs might rationalise and streamline many of them.

TECs have not enjoyed the most enthusiastic of comments from the various constituencies they set out to serve. But for those of us who participated in some of these earlier initiatives and the discussions leading up to the establishment of Tecs, the news of a further initiative – Investors in People (Iip) – leaves them, as it does the Tecs and as you said your article "Setting standards for the working classes" (Management, June 17), "confused about how and to whom Iip should be marketed".

British society has in place a recently much improved and up-dated modernised educational medium, its colleges of further education. They are beginning to make good the deficiency noted as long ago as 1868 by a Royal Commission which commented on Britain's deficiency in technical education. This once "neglected sector" is today serving an increased population of young people, of those returning to employment and those who have recognised the need for continuing education.

I urge that, rather than further re-packaging of old initiatives, colleges of further education be given the necessary support to deliver their offerings even more effectively.

As a footnote I would add that while these initiatives continue to proliferate, with the concomitant expenses and learning curves, this college, funded by the London Borough of Brent, has a current budget shortfall of £1m, the equivalent of 40 full-time staff.

Ansel Harris,
vice-chairman of governors,
The College of North West London,
Denzil Road NW10

OBSERVER

France's new bull-fighter

■ Will Francis Lorentz, deposed chairman of France's state-owned Groupe Bull, be remembered for presiding over one of the biggest losses in computer industry history, or turning round a showcase of French technology?

A year after he took over the helm, Bull lost FFr 6.7bn. To be fair, most computer companies were caught by the speed of the recession which forced a sudden downturn in capital spending. But critics argue that his strategy to revive Bull's flagging fortunes – including staff cuts, a move to "open" or industry standard systems, and the purchase of the US computer manufacturer Zenith Data Systems – came too little and too late.

Lorentz was constrained by the need to present a public face acceptable to his major shareholder, the government, which continues to promote Bull as the national computer champion. Clearly, disagreements with Madame Cresson, the former French prime minister, did not help.

On balance, Lorentz has done a good job although it's a shame he wasn't given longer to prove himself. But even he would admit that he was luckier than his successor – Bernard Pache. At least Lorentz learned the computer trade from the doyen of the European industry, Jacques Stern. Pache has no such tutor and his main claim to fame so far is that he has wielded the axe to France's coal mining industry without causing a revolution.

Age concern

■ When Conrad Black bought the Telegraph in 1986 its readers were so old they were dying at the rate of 1,000 a week. Helped by the introduction of a children's supplement, Black has managed to reverse t s un appy tren, an now a quarter of his readers are under 34.

However, older readers are still well represented on the group's board. Of the 16 non-executives, two are in their 80s and four are in their 70s. Yesterday's prospectus says that no one is disqualified from being a director just because he is 70, nor will the age of a proposed board member need to be stated when the appointment comes up for discussion at a general meeting.

Given the growing age gap between the Telegraph's board and its readers, perhaps the 47-year-old Black should consider making a bid for The Oldie magazine. After all, it seems to be doing better in terms of circulation than the Spectator, the Telegraph's magazine for young fogeys.

Measuring up

■ While battalions of analysts and researchers in the West have for years been labouring to discover the reality behind Japan's inscrutability, the Japanese themselves are now delving further into their own physical make-up.

The Research Institute of Human Engineering for Quality Life is not doing things by halves. Over the next two years it will take 180 measurements from 50,000 people to determine, for instance, the average size of a man's big toe or the length of a woman's nose. Volunteers – "We have already lined up enough schools, businesses and old people's homes," says the institute – will have to wear special underwear for the process; the resulting laser measurements will be fed into computers to create 3-D images.

The data will be used to set government standards and could help businesses determine the best sizes for everything from toilet seats to rings that commuters hold onto in crowded trains. Observer hopes the researchers will take other measurements for those gadgets bound for Europe and America.

"It's not a wig – it's a toupée"

Mischief-maker?

■ The House of Lords is obviously looking ahead to a livelier time – and a much higher public profile – after the entrance next week of Margaret Thatcher and some of her former cabinet colleagues.

It is hardly a coincidence that within minutes of her arrival in the upper house, their lordships will be debating the Maastricht Treaty. The Labour peer Lord Stoddart of Swindon has cannily called for a government statement agreeing to a referendum on political and economic union.

How long can Baroness Thatcher resist rising to the bait of such mischief-making?

Swap shop

■ The ultimate Whitehall nightmare of having to implement a policy you thought would be someone else's problem may soon come true for some unfortunate officials.

Horror o orrors. new programme of secondments between central and local government could mean that those in the department of the environment responsible for devising the transitional relief for the council tax, for example, could find themselves trying to administer it.

Michael Howard, the environment secretary, was adamant that the planned move to Docklands of his department was not a ploy to ensure sufficient volunteers for his new pet project. Even so, there will be some sympathy among his underlings for a suggestion by the Association of Metropolitan Authorities that Howard's job swap idea should be extended to include ministers and council leaders.

Knock, knock

■ To go into receivership once during a recession might be regarded as a misfortune; to do so twice begins to look like carelessness.

But such has been the fate of Knobs and Knockers, the bizarrely-named retailer of brassy household accessories, which yesterday called in receivers for the second time in as many years.

The company first collapsed in May 1991 but was resuscitated a month later through a management buy-out led by Geoffrey Davy, former chief executive of BhS. Although the receiver has immediately closed 19 of the 52 shops, he is hopeful of selling the business as a going concern.

The company's 50 remaining employees are no doubt hoping for third time lucky.

Incredible

■ Latest from the department of silly press releases. The TSB's Mike Fairey, formerly director of credit, has just been promoted to credit director. Wow!

FINANCIAL TIMES
Wednesday June 24 1992

ANC sets conditions for return to power-sharing negotiations

By Michael Holman and Philip Gawith in Johannesburg

THE African National Congress *last night broke off constitutional* talks with the South African government, accusing it of bringing the country to "the *brink of* disaster". The ANC made clear, however, that it wished to keep the negotiating process alive.

Many of the conditions set for the resumption of talks can readily be fulfilled by the government and seemed calculated to strike a balance between responding to black anger while not closing the door on a negotiated settlement.

A statement issued after a day-long meeting of the ANC executive said there was "no option but to break off negotiations".

The main demands attached to a resumption of talks include an international inquiry into last week's massacre of 42 people in Boipatong township, an end to "covert operations" by security *forces, prosecution of security* personnel involved in violence, phasing out of township hostels, and a ban on the carrying of dangerous weapons in public.

ANC officials said they would continue to prepare the ground for "mass action". The organisation also renewed its demand for the creation of a constituent assembly to draft a new constitution and for the establishment of an interim government. Next Monday was declared a day of mourning to mark the Boipatong killings.

The ANC decision brings to a halt, at least for the time being, constitutional negotiations under *the auspices of* the Convention for a Democratic South Africa (Codesa), a multi-party forum whose second formal round of discussions ended in deadlock.

A government response is not *expected until after today's cabi*net meeting in Pretoria.

President F W de Klerk was due back in South Africa last night after cutting short his visit to Spain. At a press conference in Madrid before the ANC statement he criticised what he called the ANC's irresponsible attitude in recent township violence.

"To stage mass action and protest under such *volatile* circumstances... adds fuel to the fire and can easily erupt into violence," he said. "While there is every hope progress can be made with negotiations, it is extremely unwise and borders on the irresponsible to create an atmosphere *of greater tension* and volatility."

Western governments have taken a cautious public stance, urging South African leaders to return to the conference table. Private *communications* with Pretoria have been more forthright, say diplomats, with the US in particular making clear its view that the government could do more to curb violence. In London yesterday, Mr John Major, the British prime minister, rejected suggestions that the European Community should consider reimposing sanctions.

The death toll in political violence over the past week reached 120 yesterday when police reported a further seven killings overnight in black townships. Police have detained five men for questioning in connection with the Boipatong massacre and the *hostel said to be the base for the* attackers is to be closed.

Waiting for the dead: a long row of freshly-dug graves in Sarajevo's Lion's Park cemetery. Dozens of graves are dug each day in preparation for the victims that will fill them as a result of fighting between Bosnian and Serbian forces

US tightens sanctions against Serbia

By George Graham in Washington, Judy Dempsey in *Prishtina, Kosovo,* and Laura Silber in Belgrade

THE US yesterday issued its toughest condemnation of the "barbaric" killing of civilians in Bosnia by Serbian militias and announced that it was tightening sanctions against the Belgrade government.

United Nations officials in Sarajevo said they had given up hope of quickly securing a 48-*hour ceasefire to airlift supplies* after the Bosnian capital had been bombarded for most of the day.

Mr James Baker, US secretary of state, did not discount US support for a multilateral operation. "The US has not ruled out participating *in some multilateral* operation if that should become necessary, particularly with respect to the provisioning of humanitarian assistance."

He said the US would:

- Immediately withdraw recog*nition from Belgrade's ambassa*dor to the US;
- Order the former Yugoslav consulate in Chicago to be closed;
- Consult its allies on additional steps, including action to end the obstruction of UN relief operations in Sarajevo;
- Broaden its efforts to have Serbia and its ally Montenegro suspended from participating in international institutions;
- Press for the two former Yugoslav *republics to be required* to reapply for membership once they had complied with UN Security Council resolutions and met criteria set for the admission of other new states.

Describing the latest mortar attacks by Serb militia forces on the *centre* of Sarajevo as "barbaric" and "inhuman", Mr Baker said the time had come for the international community to go beyond economic sanctions, which the UN imposed on Serbia and Montenegro at the beginning *of this month.*

"It's hard to believe, really, in this day and age, that armed forces will fire artillery and mortars indiscriminately into the heart of a city, flushing defenceless men, women and children out into the streets and then shooting them," Mr Baker told a hearing of the US Senate committee on foreign relations.

In Sarajevo, General Lewis Mackenzie, head of the UN mis*sion, said:* "Any *immediate hope* of establishing a two-day truce to reopen the city airport is over."

Continued shelling, sniper attacks and anti-aircraft fire by Serb irregulars could prevent Bosnian president Alija Izetbegovic from travelling to Strasbourg where Lord Carrington, chairman of the European-Community sponsored peace conference, intends to reconvene the conference tomorrow.

Mr Haris Silajdzic, the Bosnian foreign minister, is expected to *attend the conference* as is Croatian president Franjo Tudjman, and Serbian president Slobodan Milosevic.

In Prishtina, capital of Kosovo, Serbian authorities yesterday prevented the independent parliament from meeting by surrounding the building with tanks and troops, and arresting several of its supporters and deputies.

Heavily armed Serb troops set up roadblocks around the prem*ises, and occupied* the *building.*

The parliament was scheduled to hold its inaugural session following underground elections last month, which were organised by the Democratic League of Kosovo (DLK), the ethnic-Albanian party.

Serbia, under President *Slobo*dan Milosevic, who forcibly integrated the southern province of Kosovo into the republic, said the elections were illegal.

Call for Eurofighter plan to be scrapped

By Quentin Peel in Bonn

MR Volker Rühe, the German defence minister, yesterday proposed that the controversial European Fighter Aircraft (EFA) should be scrapped and replaced with a cheaper, lighter aircraft.

His compromise plan to save money, and yet still provide jobs *for the German aerospace* industry and a European aircraft for the Luftwaffe, is likely to be put to the parties in the ruling coalition next week.

The original plan for the coalition partners to decide for or against German participation in the multinational project yester*day was put back until June 30.*

Chancellor Helmut Kohl is known to be concerned to reach a decision acceptable to Britain, Italy and Spain, the other participants, and to the Christian Social Union (CSU), the Bavaria-based conservative party which is *his closest ally* in the government.

The idea of a cheaper, lighter aircraft was first mooted in press reports yesterday. It was greeted sceptically by the industry which saw it as a political face-saving measure rather than a serious technical proposal.

Mr Rühe's plan appears to use technology developed for the EFA, together with parts bought off-the-shelf from other aircraft manufacturers, in some sort of modular-assembly concept.

"We are talking about a new aircraft," Mr Rühe said before a meeting *of the Christian Demo*crats (CDU) and CSU.

"First there must be a decision to say no to production [of the EFA]. That will open the way to using the development costs in the 1990s for a different European aircraft that would be considerably cheaper".

A spokesman for Deutsche Aerospace, the Daimler-Benz subsidiary which has a 33 per cent stake in the EFA project, said that any new aircraft would mean virtually "going back to the drawing board", even if it did seek to incorporate EFA technology.

It would also have to be agreed with the other partners, he said. British Aerospace has a 33 per cent stake in the project, Italy's Alenia 21 per cent and Spain's CASA 13 per cent.

Commission may cede some central powers

Continued from Page 1

dominant position within a *single* national market, there should be more recourse to national courts, *rather than directly to Brussels.*

As an alternative to EC legislation, the paper says, the Commission should consider encouraging private parties – such as employers and trades unions – or public authorities to regulate themselves.

Where self-regulation is not appropriate, the Commission should confine itself to setting minimum EC-wide standards. This practice, which Brussels is already increasingly using, allows member states to make further refinements in technical norms, provided these are "mutually recognised", or accepted throughout the EC.

Mr Delors told EC *foreign* ministers last Saturday that he saw a paradox between the way the *Twelve were developing the* single market on the basis of "mutual trust", yet controlling the spending of EC structural aid in poorer, southern states, on the basis of "mutual mistrust".

Correction

Sheikh Khalifa

The Financial Times on Monday incorrectly identified a photograph of Sheikh Khalifa bin Sulman bin Mohammed al-Khalifa, Bahrain's labour and social affairs minister, as Sheikh Khalifa bin Sulman al-Khalifa, the prime minister. We apologise for the error.

World Weather

		°C	°F
Ajaccio	S	23	73
Algiers	F	26	79
Amsterdam	C	18	64
Athens	S	29	84
Bahrain	S	35	95
Bangkok	F	34	93
Barcelona	F	21	70
Beijing	R	19	66
Beirut	F	26	79
Belfast	C	15	59
Belgrade	S	30	86
Berlin	S	23	73
Biarritz	C	18	64
Bombay	Dr	27	81
Bordeaux	C	18	64
Boulogne	F	20	68
Brussels	F	20	68
Budapest	S	30	86
Buenos Aires	R	14	57
Cairo	S	32	90
Cape Town	F	17	63
Caracas	F	28	82
Casablanca †	C	23	73
Chicago †	C	14	57
Cologne	F	23	73
Copenhagen	S	18	64
Corfu	S	31	88
Dallas †	S	21	70
Dublin	C	15	59
Dubrovnik		–	–
Edinburgh	S	19	66
Faro	F	20	68
Florence	F	21	70
Frankfurt	S	21	70
Geneva	C	19	66
Gibraltar	F	21	70
Glasgow	F	16	61
Helsinki	F	15	59
Hong Kong		–	–
Innsbruck	F	21	70
Inverness	C	16	61
Islamabad	F	38	100
Istanbul	S	25	77
Jakarta	C	33	91
Johannesburg	S	13	55
Lisbon	F	19	66
London	F	20	68
Los Angeles †	F	18	64
Luxembourg	C	23	73
Madeira	C	20	68
Madrid	F	17	63
Majorca	S	23	73
Malaga	C	22	72
Malta	F	25	77
Manila	C	32	90
Melbourne	F	10	50
Mexico City	F	27	81
Miami †	F	26	79
Milan	F	21	70
Montreal †	S	13	55
Moscow	C	15	59
Munich	F	26	79
Nairobi	F	23	73
Naples	F	31	88
Nassau	R	32	90
New Delhi	F	30	86
New York †	S	14	57
Nice	S	21	70
Nicosia	F	26	79
Oporto	S	20	68
Oslo	F	18	64
Paris	S	19	66
Prague	F	24	75
Reykjavik	R	6	43
Rhodes	S	29	84
Rio de Janeiro	F	32	90
Rome	S	26	79
Salzburg	F	25	77
S'Francisco †	C	15	59
Seoul	S	26	79
Singapore	F	32	90
Stockholm	S	17	63
Strasbourg	F	22	72
Sydney	S	16	61
Taipei	F	34	93
Tangier	F	21	70
Tel Aviv	S	30	86
Tenerife	F	22	72
Tokyo	R	16	61
Toronto †	F	10	50
Tunis	F	27	81
Valencia	F	22	72
Venice	F	24	75
Vienna	S	29	84
Warsaw	S	23	73
Washington †	S	17	63
Zurich	F	21	70

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

THE LEX COLUMN

Mirror images

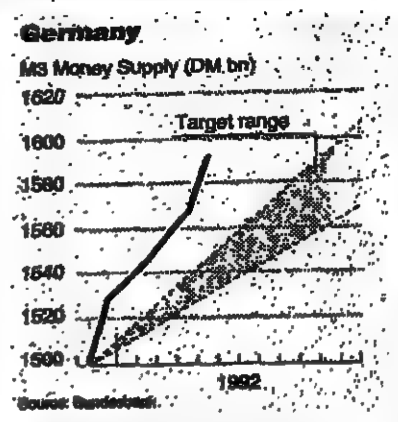
Two points stand out from the Mirror Group Newspapers figures. First, the basic business is in relatively good shape, having posted a 12 per cent increase in operating profit before exceptional items last year. Second, *the company* appears to have made a comprehensive effort to establish the extent of the damage incurred during the late *Robert Maxwell's stewardship.* That raises the question of what it is now worth, especially in the light of the expected re-listing next month.

By some yardsticks, the answer might be: not very much, if anything at all. The extraordinary losses of £422m are not far short of the company's entire market value *of £501m* at the time it was suspended. Remaining shareholders' funds of £436m are less than the £625m at which the newspaper titles are still carried in the balance sheet. But MGN's strength remains its cash generative capacity which is likely eventually to make it a *bid target.*

One way of assessing its value is thus to look at what MGN might be worth to a potential buyer. *The* starting point is twice turnover, or some £920m. From that must be deducted debt of £420m, as well as the net future additional pension fund *commitment, or some* £135m. *Allowing* for some further deductions, mostly related to extraordinary contingencies, that gives a rough market worth of £300m or 75p a share.

Whether the price will settle at this level when trading resumes is another matter. There is no dividend; there is some residual uncertainty over possible claims from Maxwell companies and financial institutions; and there is likely to be some distress selling by small investors when trading resumes. Last but not least, the calculation assumes a hefty bid premium in the short term. That may be premature as *the administrator* does not give much sign of being in a hurry to sell.

FT-SE Index: 2560.6 (+10.3)



Germany

It *is beginning to* look as though the German money supply will never shift in the right direction. The one glimmer of hope in *May's annualised* increase of 9 per cent was a small slowdown in the growth rate of bank credit to the private sector. Even so, it now looks inconceivable that money growth *can slip* back *sufficiently over* the next few months to justify easier rates. The latest money supply data thus tend to confirm earlier impressions that there will be no room for an official German rate cut this year.

One consequence may be that the recovery in the dollar which many foreign exchange dealers expected for 1992 may simply not occur. A weak US recovery and the presidential election *will prevent short-term interest rates* rising on that side of the Atlantic. So the interest differential between the two countries will remain wide. As for Germany, there may be some lag in the impact of high interest rates, but for the time being the economy appears able to stand the strain. It is thus unlikely the Bundesbank *will cut* rates aggressively when it does start to relax.

EC airlines

Given the failure of earlier EC efforts to break up Europe's airline cartel, it is scarcely surprising that the latest liberalisation package has earned a sceptical response. With open skies now postponed until 1997 to accommodate more fearful member states, it *is fair to assume that* this week's agreement will have little immediate impact.

It would be silly, though, to belittle its long-term significance. For reasons that are hard to fathom, airlines arouse much the same sensitivity as national currencies; so much so that the prospect *of full* cabotage rights ever being accepted seemed inconceivable until quite recently. The pressure for rationalisation, mergers and cost savings in Europe's fragmented air *transport* industry will now greatly intensify. Politicians will doubtless continue to drag their heels, but will ultimately have to accept a measure of global branding.

For the moment, of course, the new freedoms will mean little, not least because the EC's infrastructure is in a mess. The problem of airport slots for *newcomers has* not been addressed in this week's package, though it remains the subject of separate negotiation. The *decentralised air traffic* control system – a further block to extra capacity – is not likely to be improved much before 1995. These constraints, quite apart from their generally parlous financial condition, explain why airlines are unlikely to launch instant price wars. They will presumably only *do so when able to* offset lower fares with bigger volumes.

Wessex Water

Wessex Water is in a happy position among water companies. Like its larger peers, it is striving to generate profits which *cannot be touched* by the regulator. Unlike Thames and Severn Trent, Wessex is small enough that if its unregulated businesses oblige, it has scope to increase dividends without offending its water customers.

Judging by yesterday's annual *results, Wessex is well on course.* The five-month contribution from its joint venture with Waste Management was ahead of expectations. It might make £4m this year, equivalent to 5 per cent *of group pre-tax profits.* By mid-decade, it could be making 10 times as much. In expanding, Wessex will struggle to replicate the *favourable* terms of the venture with Waste Management. There are plenty of small acquisitions available, but that approach will take longer than *another large deal. Shareholders are* doubtless happy to stay on board regardless.

Lasmo

Judging by the 8 per cent fall in Lasmo shares yesterday, the market has no great faith in the *viability of its* planned US flotation. The GPA debacle aside, it would be understandable if US institutions were reluctant to invest in assets already spurned by the *oil industry. Assuming Lasmo* goes ahead, it will doubtless have to do so at a much lower price than the originally indicated $20.60 per share. That will do further harm to its stretched finances. Shareholders might thus be better served in the long run if the flotation is pulled. Either way, in the short term their dividend is more vulnerable than ever.

FINANCIAL TIMES

COMPANIES & MARKETS

Wednesday June 24 1992

INSIDE

Ferranti losses reduced to £39.6m

Ferranti International, the electronics and defence group which came close to collapse following the 1989 discovery of huge fraud in its US subsidiary, International Signal and Control, yesterday appeared to be back on course for recovery. It reported better-than-expected pre-tax losses of £39.6m ($73.9m) in the year to March 31, compared with losses of £98.1m in the previous period. Page 18

Costain to sell Australian arm

Costain, the troubled UK construction, mining and property group is seeking to raise more cash by selling a stake in its profitable Australian coal mining subsidiary. The subsidiary has been estimated to be worth £130m ($242m). Page 24

Snail's pace protest

Another blockade of Paris was attempted yesterday — this time by French farmers wanting the government to overturn last month's EC farm policy reforms. However, the end result was tame, a sign of the diminishing power of the once-powerful farm lobby. But the government is still concerned by the wave of demonstrations which, particularly in the south-west, have led to traffic being held up by slow-moving tractors performing "*operations escargots*". Page 25

Seoul safety net in tatters

The index of the Seoul stock market has fallen more than 40 per cent in the past three years and on Monday closed at 569, its lowest level in almost five years. But the plunge would have been even deeper if the South Korean government's stock market stabilisation fund had not intervened. Now the fund's reserves have dwindled to less than Won300bn ($380m), meaning it may prove less effective in breaking future falls. Back Page

Price of Telegraph announced

The price for the flotation of the Telegraph was set yesterday at 325p, giving the newspaper publisher a market value of £435.5m ($812.3m). Page 25; Observer, Page 15

H-P buys TI minicomputer unit

Hewlett-Packard is to acquire Texas Instruments' minicomputer business in a bid to expand its customer base in the commercial Unix minicomputer market. Page 21

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
AEG	191.5	+	4.4	Eridania B-Say	688	+	18
Lahmeyer	770	+	20	Radiotech	554	+	12
Leifheit	465	+	10	Skis Rossignol	665	+	19
Falls				**Falls**			
Colonia Konzern	855	−	20	Amdl Entrepr	682	−	23
Hoesch	277.5	−	15.5	Intertechnique	775	−	35
Linotype-Hell	421	−	11	Unibail	414	−	11.6

NEW YORK ($)				TOKYO (Yen)			
Rises				**Rises**			
Goodyear	67	+	2¼	Lec	27	+	5
Pet Inc	15⅜	+	⅜	Npn Piston Ring	439	+	39
Falls				Shizuoka Bank	1150	+	100
Intl Recovery	12⅜	−	6⅝	Showa Denko	285	+	25
Keithley Insts	11½	−	1¼	**Falls**			
Nacco Inds	46¼	−	5⅝	Daido Signal	540	−	59
Vestar	11¼	−	1¼	Nitto Elec Wrks	1450	−	150

LONDON (Pence)							
Rises				BM	303	−	12
Abbey Natl	274	+	7	Booker	455	−	15
Brit Airways	274	+	7	CMW	49	−	31
Glaxo	712	+	23	Cupid	90	−	5
Halma	170	+	8	Debenham Tewson	41	−	3
Kwik Save	680	+	16	LASMO	174	−	13
Pace	45	+	3	ML Hldgs	31	−	7
Proteus	402	+	25	Silentnight	204	−	14
SmithKline Bchm A	864	+	24	Sketchley	120	−	7
Wellcome	931	+	18	Total Systems	46	−	4
Falls				Victaulic	344	−	37
Amber Day	45	−	3				
Aviva Pet	62	−	5				

Renault and Volvo strengthen alliance

By William Dawkins in Paris

RENAULT, the French state-owned carmaker, and Volvo, its Swedish partner, are to strengthen their alliance by pooling most of their car component purchasing and all their quality control activities.

They have agreed to set up two joint ventures in component buying and quality control to "put together the respective resources of Renault and Volvo Car Corporation so as to act as if the two groups were one company", Renault said.

This is one of the biggest steps in the Renault-Volvo alliance since they agreed to take cross-shareholdings in each others' parents and subsidiaries two years ago.

But Renault said it was not a prelude to a full merger of the groups' car and truck making businesses. Shortly before retiring as chairman last month, Mr Raymond Lévy said a merger was possible, but not the only way to increase co-operation with Volvo.

The components' move will boost the economies of scale already achieved by helping the partners to obtain bigger discounts from suppliers. They now buy 15 per cent of their components from common makers, through a purchasing committee set up in October 1990, and hope to lift that to 80 per cent shortly, said Renault.

Renault spends FFr50bn ($9.4bn) a year buying in components, representing 60 per cent of its manufacturing costs. To this can now be added Volvo's FFr14bn a year components bill. If they reach their 80 per cent target, they will pool FFr51.2bn of annual spending.

Before yesterday's announcement, Volvo estimated it would save SKr800m ($141m) annually in two to five years from joint component buying alone. Renault has not put a figure to its savings in this area, but estimates it has saved FFr1bn on its development bill by using some Volvo engines.

The venture on quality control aims to ensure the partners use common methods and standards.

Both operations will be based in Paris under management to be chosen on merit from either partner. They will be set up as European economic interest groupings, a streamlined structure set up under EC law to encourage cross-frontier alliances. Neither activity will apply to the partners' truck making divisions, which have fewer suppliers in common, said Renault.

O&Y plans to sell some US office property

By Bernard Simon in Toronto

OLYMPIA & YORK plans to sell about a dozen of its US office buildings and concentrate in future on high-quality properties in a limited number of cities.

The disposals, as well as restructuring of some debt and new loans, are required to keep the developer's US operations outside the court protection granted last month to its businesses in Canada and the UK.

The extent of new borrowings is likely to depend on O&Y's success in attracting tenants to its buildings. The extra money is required for refurbishing to meet new tenants' needs, and for brokers' commissions. The advances would be secured by the leases.

Mr John Zuccotti, who heads O&Y's US operations, is understood to have told lenders that the company intends to retain its flagship buildings, notably the World Financial Centre in lower Manhattan, as well as properties in Boston and Los Angeles.

Properties to be disposed of represent about a third of O&Y's 29m sq ft of office space in the US. They include 55 Water Street in Manhattan, the world's biggest office building.

Meanwhile, O&Y and its lenders in Canada have postponed court hearings due to start today on applications by several groups of lenders to "carve-out" individual buildings from last month's order freezing O&Y's debt obligations. The lenders, which include some European institutions, contend that they lent to single-purpose companies without recourse to O&Y. The company says it needs to keep all creditors at bay if it is to succeed in restructuring its C$13.5bn (US$11bn) debt.

Fears have been expressed that a court order confirming O&Y's actions might undermine what has become one of the most popular forms of property financing in North America.

Mr Justice Robert Blair of the Ontario court of justice will hear other motions today from creditors seeking to protect their interests.

At a meeting in Toronto today, one of the Canary Wharf administrators is due to outline initial proposals for the future of the project in London's Docklands.

Mr Nigel Hamilton of Ernst & Young, the accountancy firm, has flown to Canada to meet representatives of the 11 banks which lent £500m ($930m) for the construction of Canary Wharf.

Contractors consider action, Page 25

Nestlé moves to ease EC bid worries

By Andrew Hill in Brussels and Alice Rawsthorn in Paris

NESTLE, the Swiss food group, is believed to be negotiating with the European Commission about selling some of its mineral water brands, in an attempt to persuade Brussels to clear its FFr15.46bn ($2.9bn) bid for Perrier, the French mineral water.

The commission's concerns about the bid centre on the prospective shares of the French mineral water market owned by Nestlé and BSN, the French food group. BSN sided with its Swiss competitor during the Perrier bid in return for an agreement that it could buy Volvic mineral water if the bid succeeded.

It appears the Volvic deal may not be enough to convince Sir Leon Brittan, the EC competition commissioner, there will be no distortion of the French market. The bid was technically suspended in February, although the public offer for Perrier shares was allowed to go ahead.

The commission has to make a decision by the end of July and Sir Leon is likely to pass his recommendations for action to a consultative committee of national experts at the beginning of the month.

Three weeks ago, Nestlé revealed that the commission's merger task force still had "serious doubts" about the potential duopoly between BSN and Nestlé. Unlike previous competition cases involving French companies, however, the Nestlé merger has not stirred up any political storms in Paris or Brussels.

Nestlé has claimed that, if allowed to take control of Perrier, which owns other waters as well as Volvic and the flagship brand, its share of the French market would rise from 15.6 per cent to 36.8 per cent.

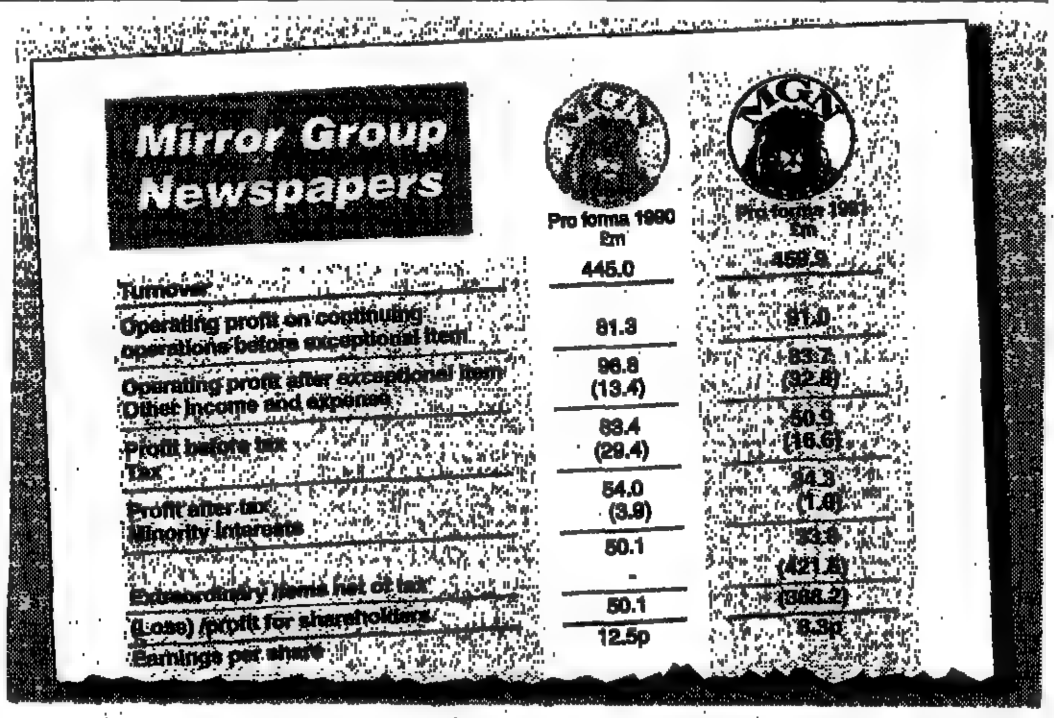
Meanwhile, BSN would see its share increase from 20.2 per cent to 30.9 per cent after the addition of Volvic. Volvic apart, the other Perrier-owned waters in the French market include Contrex, Vichy, Saint Lambert and Plancoët.

Some of these products produce substantial turnover. Contrex, for instance, made estimated sales in France of FFr1.35bn in 1990, according to Enskilda, the stockbrokers.

This was higher than Volvic with sales of FFr1.13bn or Perrier itself, which was still recovering from the benzene scare and mustered turnover of just FFr1.11bn in its domestic market.

UK newspaper chairman reports £50m pre-tax profits but £421m extraordinary losses for last year

MGN hit by 'fraudulent collusion'



By Raymond Snoddy in London

MIRROR Group Newspapers lost millions of pounds because of "fraudulent collusion" by a group of senior individuals, Sir Robert Clark, chairman of the UK newspaper group, said yesterday.

The statement came as Sir Robert was setting out for shareholders for the first time the story of what had happened since the flotation of the company in May 1991, the death of Robert Maxwell in November and the rapid collapse of the Maxwell empire.

MGN, the main titles of which are the Daily Mirror, Sunday Mirror and the People, incurred an attributable loss of £388.2m ($724.1m) in 1991. Its pre-tax profit was £50.1m, but there were extraordinary losses of £421.5m.

Sir Robert detailed at least 28 "unusual" payments of more than £1m each last year from the group's bank accounts. The effect appeared to have been to benefit companies under the control of Robert Maxwell at the expense of MGN and its pension funds.

The board accepted that there were weaknesses in MGN's internal controls, Sir Robert said. "However, no system of internal control can protect a company against fraudulent collusion.

"Ultimately the losses sustained by MGN can be attributed to collusion by a group of senior individuals, directors and officers who acted fraudulently and in secrecy. At the time the directors did not have firm evidence to doubt the honesty of those individuals."

Asked to whom he was referring, Sir Robert said he could not go further for legal reasons.

The chairman's 96-page review and accounts for the year to December 29 say nine of the 28 unusual payments – not necessarily illegal – which together totalled £180m, were authorised by Robert Maxwell alone, with the others being authorised by more than one person.

"The persons involved were primarily Kevin Maxwell, who was not then a director of the company [MGN], Ian Maxwell and Michael Stoney," Sir Robert said in his review. Mr Michael Stoney was deputy managing director (finance) of MGN until December.

The unusual transactions included a £50m loan from Bankers Trust for MGN which never came to the company but appears to have been used to pay off another Maxwell group debt to the US bank.

Sir Robert said the extraordinary loss of £421.5m was principally caused by the misappropriation of assets from MGN and its pension funds and the insolvency of Maxwell-controlled companies. The largest single item is an estimated £193m pension fund deficit which the company has agreed to put right over the next 14 years.

In contrast with the enormous losses, Sir Robert said MGN was trading strongly and increasing its share of circulation in the popular newspaper market.

The announcement of the results and Monday's finalisation of a £260m financing package by a group of seven banks, led by National Westminster and Midland and including Bankers Trust, are essential steps on the way to the sale of MGN.

Just over 54 per cent of the company is held by the Maxwell private interests which are in administration. Because the Maxwell shares were pledged to support bank loans the stake is effectively owned by a group of banks.

All the signs are that Arthur Andersen, the administrator, and the banks want to wait until all uncertainties are removed before selling the company.

At least nine groups are believed to have lodged an interest in MGN with Arthur Andersen. They are likely to include Sir Peter Parker, former chairman of British Rail (representing a management buy-out team), Mr Tony O'Reilly, chairman of US food group J.Heinz and of Independent Newspapers in Dublin, and Mr Conrad Black, chairman of the Daily Telegraph.

The start of the race to buy the group was marked yesterday by the directors of MGN making a resolute public display of sweeping up the mess left behind by Robert Maxwell.

As Sir Robert said with a touch of understatement: "Recent months have been extremely difficult and unsettling for the MGN group and without precedent.

"Despite the terrible blows which were inflicted on the group and despite the major disruptions we have had a very encouraging trading performance."

In contrast to the extraordinary items, Sir Robert announced that trading level profits of MGN in 1991 had risen by 11.9 per cent to £91m and that margins were approaching 20 per cent.

Pre-tax profits fell by 39 per cent because of the costs associated with closing The Racing Times in the US, lower income from Donohue, a Canadian associate in the paper and pulp business, and the non-recurrence of the previous year's £15.5m pension surplus.

Shareholders' funds at the start of the year on a pro forma basis were £841.9m and had dropped to £436.3m by the year-end. Balance sheet gearing increased from 91.3 per cent at the year-end to 96.2 per cent on May 15.

The audit report to the financial statements qualifies the accounts for some of the contingent liabilities because of the association with other Maxwell-controlled companies and adjustments that might occur because of pension fund obligations.

Coopers & Lybrand is to be replaced as MGN's auditor by Price Waterhouse at the company's annual meeting on July 16. A relisting of MGN shares, suspended since December, is also likely to follow the meeting.

Report details, Page 8
Lex, Page 16

MGN Shareholders' funds

	Pro forma (£m)
Shareholders' funds at start of 1991 year	841.9
Earnings on ordinary activities	33.3
Extraordinary items	(421.5)
Other items	(17.4)
Shareholders' funds at 1991 year-end	436.3
Net borrowings	396.4
Gearing	91.3%

French government names Bull chief

By William Dawkins in Paris

THE French cabinet is expected to decide today on the fate of the chairmen of leading state-owned companies, as their three-year mandates come up for review.

Few of the chairmen are expected to lose their jobs, with the notable exception of the change of chairmanship at Bull, the heavily loss-making computer group, announced on Monday.

The government announced yesterday that Mr Bernard Pache, chairman of Charbonnages de France, would succeed Mr Francis Lorentz as Bull's chief. The government wants to ensure management continuity where possible. It needs to avoid worrying other shareholders at a time when it is selling minority stakes in state companies to fund its employment policies and when many government-controlled groups are forging alliances with foreign partners.

Mr Alain Gomez, chairman since 1982 of Thomson, the civil and defence electronics group, was yesterday proposed for re-selection by his board, putting an end to recent speculation over his future.

During his tenure, Mr Gomez has concentrated Thomson from 23 disparate activities on to three core businesses: defence systems, home audiovisual products, and semiconductors. He has also launched a series of ambitious international acquisitions.

Thomson is attempting to take over the missiles division of LTV, the US steel and industrial group, against intense political resistance in the US.

Confirmation of Mr Gomez's reappointment by today's cabinet meeting should be automatic, making him one of the longest-serving state industry chiefs and one of the few to keep his job since the round of nationalisations 10 years ago.

The government is also expected to reappoint:

- Mr Loïk le Floch-Prigent, chairman of Elf-Aquitaine.
- Mr Jean Gandois, chairman of Pechiney, the aluminium and packaging group.
- Mr Bernard Attali, chairman of Air France, who has already been proposed by his board.

Other nominations expected tomorrow include the top jobs at the banks Crédit Lyonnais, Banque Hervet, Compagnie Financière du CIC, Union Européene and Société Marseillaise de Crédit.

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INTERNATIONAL COMPANIES AND FINANCE

Ferranti poised for recovery as losses decline to £39.6m

By Angus Foster in London

FERRANTI International, the electronics and defence group which came close to collapse following the discovery in 1989 of a large fraud in its US subsidiary, International Signal and Control, yesterday appeared to be back on course for recovery.

The company announced less severe losses than expected and said three "life threatening" litigation claims against a problem US subsidiary, FICC, had been settled. Ferranti's shares jumped 17 per cent in response, from 8.75p to 10.25p.

Ferranti reported pre-tax losses of £39.6m ($73.26m) in the year to March 31, compared with losses of £98.1m in the previous period. The losses included £6.6m from discontinued businesses and exceptional costs of £13.9m from rationalisations and fixed asset write-offs.

Mr Eugene Anderson, chairman since 1990, said Ferranti's markets remained tough, especially given the downturn in defence spending.

"We're getting close to [profits] but the key is winning more business," he said.

A disposal programme, which included the sale of its missile business to GEC, is continuing. Employee numbers fell to just over 5,000 at the start of this month, compared with about 27,000 in 1989.

Disposals raised £69.8m and net borrowings fell from £94.8m to £66.5m. But gearing remains close to 100 per cent, and further disposals are due this year.

Turnover fell nearly a quarter to £362.6m while turnover on continuing business was down about 17 per cent. However, the company won £249.4m of new business in the defence and civil sectors and the order book at the end of the year was £272.1m.

Litigation stemming from the fraud, which Ferranti estimates cost the company more than £600m, is continuing. Mr James Guerin, former chairman of ISC, was jailed for 15 years earlier this month. Ferranti has recovered $1.2m from proceedings involving another ISC employee.

About £41.1m of losses related to the fraud have so far been recovered. Of the total, £40m was paid by Peat Marwick, auditor to ISC.

There was a loss per share of 4p, compared with an 11.5p loss a year ago. No dividend is recommended. Extraordinary losses of £6.6m on the closure of businesses took losses for the year to £44.1m.

Giat turns in FFr400m deficit

By William Dawkins

GIAT Industries, the French state-owned armaments maker, yesterday revealed a 1991 loss of FFr400m ($75.9m) and said it would have to shed 2,000 of its 17,000 jobs to adjust to reduced defence spending.

The loss compares with a FFr600m deficit in 1990 and is the first time the formerly secretive Giat has published its results. It was transformed two years ago from a defence ministry agency into a semi-autonomous state-owned company.

The defence industry faced "severe rationalisation" and job losses would accelerate, said Mr Pierre Chiquet, chairman. He warned that the outlook for the group this year was more difficult than in 1991, but maintained that Giat would still hit its target of breaking even in 1993.

The group, which manufactures the Leclerc battle tank, has been attempting to boost exports to soften the impact of the downturn. Officials said Giat was hoping to sell the Leclerc in Sweden, Saudi Arabia and the United Arab Emirates. The French army is expected to buy 800 tanks.

Giat's reduced losses were made on turnover up from FFr6.2bn to FFr11.3bn over the same period. However, the sales increase mostly reflects the first-time inclusion of FN Herstahl, the Belgian arms maker bought at the end of 1990, and Manurhin and Luchaire, two French ammunitions groups.

Giat does not plan to close any plants, but would reduce their size while diversifying into civil markets. The job losses would come through voluntary retirement.

Repola operating profit higher

By Robert Taylor in Stockholm

REPOLA, Finland's largest industrial group, yesterday reported a loss (after financial items) of FM118m ($27.7m) for the first four months of the year, compared with a FM208m loss in the same period of 1991.

Operating profit rose to FM478m from FM311, for the same period of last year, with the group's three industrial groups – pulp and paper, plastic packaging and metal and engineering products – showing improvement.

Operating profit for the United Paper Mills forestry arm rose to FM421m from FM230m a year earlier, while the group made a strong recovery in metals and engineering, posting a FM48m profit compared with a FM55m loss.

The improvement was due to a number of factors, including cost-cutting, the elimination of unprofitable operations, the devaluation of the Finnish markka last November and the recovery of demand for certain products.

Consolidated sales rose 22 per cent to FM8.46bn from FM6.92bn a year earlier. The group's equity-to-assets ratio at the end of April was 27.5 per cent, against 28 per cent.

First-half shortfall at Airtours reduced

By Richard Gourlay in London

AIRTOURS, the UK's third-largest package holiday company, yesterday reported reduced first-half losses after a sharp rise in sales during winter.

Mr David Crossland, chairman, said the summer holiday market as a whole for the year to May had increased 20 per cent, the first growth in two years, and that the winter market had also grown – by 8.3 per cent in the year to end-March – for the first time since the 1988-1989 season.

Holiday bookings at Airtours in April and May were higher than in the same period last year, but the first two weeks of June had been weak with volumes maintained but at the expense of lower margins.

Airtours' summer bookings were 31 per cent ahead of last year following a 30 per cent increase in the number of holidays on offer.

Mr Crossland said Airtours had taken a large slice of the market left when Mr Harry Goodman's International Leisure Group collapsed last year.

The company remained as dependent as ever on margins that could be attainable in the late booking market, he said.

The results suggested that in spite of the recession, holidays were among the last non-essential costs to be cut.

In the six months to the end of March, Airtours increased the number of passengers carried by 77 per cent and its sales by 83 per cent to £101.55m.

UK holiday companies traditionally make losses in the first half as they pre-pay certain of their summer season costs. But, in spite of the jump in sales, Airtours cut its losses to £5.56m from £8.31m.

This loss included for the first time a seasonal loss on its leased aircraft fleet and £1.1m in start-up costs on the introduction of three aircraft.

The company will pay a 0.55p dividend, up 10 per cent on last year, while the loss per share fell to 4.29p.

Spain refuses to aid KIO flagship

By Tom Burns in Madrid

THE KUWAIT Investment Office (KIO) and the Spanish government were heading for a confrontation last night after the state refused to come to the aid of Ercros, KIO's troubled industrial flagship in Spain.

Ercros, the country's biggest chemicals company, is facing a severe financial crisis. Mr Jose Recio, Ercros's chairman of just three weeks, resigned on Monday, triggering a suspension of trading in the group's stock. The resignation came after a failure to secure agreement from KIO or the government on bailing the group out of its $990m consolidated debt.

KIO's new London-based management is understood to have told the Spanish Finance Ministry last week that it was prepared to allow Ercros to go bankrupt if Madrid did not help it out with new funding. At that meeting, the government replied it would not make anymore money available to Ercros unless KIO responded in kind.

"Ercros is a private company and it is not our business to bail it out," said the Industry Ministry, which in the past three years has channeled up to Pta18bn ($182.7m) of subsidies to Ercros – mainly to shore up its loss-making fertiliser operations.

At the state-controlled Banco Exterior, Ercros's biggest creditor, an official said the bank had Pta20bn in outstanding loans to Ercros and would not initiate any negotiations if KIO or the government did not move first.

Ercros would be the biggest corporate collapse in Spain for nearly a decade. Group turnover last year totalled $2.2bn, and it reported losses of Pta16.4bn. It employs 10,500 people in the chemicals, fertiliser, mining and explosives.

Its predicament – caused largely by weak fertiliser prices – is an embarrasing setback for KIO in Spain. In the last few weeks it has tried to reassure Madrid that it intends to stay in Spain as a long-term industrial investor. KIO's industrial assets in Spain, built up over the last 10 years, are worth up to $7bn.

Mr Jose Recio, who took over as Ercros chairman at the begining of the month, resigned after failing to secure a Pta25bn capital injection by KIO, which owns some 40 per cent of Ercros through Torras, its Spanish investment arm.

Mr Recio, a senior banker, was hired to smooth out differences between KIO and Madrid over funding Ercros, which is also negotiating a joint fertiliser venture with Freeport MacMaRon of the US. He appears to have decided to leave Ercros before being drawn into a messy collapse.

A Freeport joint venture, dependent on new money being pumped into Ercros by KIO or Madrid, looks increasingly unlikely.

Pache set to be confirmed as Bull chairman

MR BERNARD Pache, head of Charbonnages de France, the French coal board, is today due to be confirmed as chairman of Bull, the state-owned computer maker, writes William Dawkins. He will succeed Mr Francis Lorentz.

Mr Pache, 57, has no computer industry qualifications, in contrast with Mr Lorentz, who had been managing director of Bull for seven years before becoming chairman in 1989. But officials argue that the appointment is no more unusual than the choice of Mr John Sculley, the former Pepsi-Cola president, who took the top job at Apple, the US computer group, nine years ago.

The new Bull chairman has spent most of his life in state industry. He trained at the Ecole Polytechnique, the elite public-service college, and started his career as an adviser to the industry minister. He joined Pechiney, the aluminium group, in 1966 and became chairman of the state-owned company in 1985. He was removed a year later by the incoming Gaullist government to make way for Mr Jean Gandois, Pechiney's current chairman.

Since then, Mr Pache has performed a low profile but demanding job in managing the run-down of the French coal industry, which has been unable to compete against cheap imports from North America, Australia and Germany.

He has reduced the coal workforce by more than half from 48,000 to 20,000 over the past six years, setting up job-creation and retraining schemes to compensate. His ability to wield the axe without creating strife appears to have won the government's admiration and could be useful at Bull, which is in the middle of its own three-year restructuring programme.

Nordbanken control unveiled

By Robert Taylor

THE Swedish government announced yesterday the creation of a new state company which will control all the shares of Nordbanken, the ailing commercial bank from September 1. The state was forced to intervene and take over the bank last month in the face of its increasing financial problems caused by bad debt losses.

The Ministry of Finance said yesterday the new company, Venantius, had purchased so far 13.8 per cent of the 22.7 per cent of remaining equity and voting shares in Nordbanken from a number of its larger shareholders, including Nobel Industries, for SKr21 per share. The remaining 77.3 per cent of equity in Nordbanken is already owned by the state.

A prospectus setting out the terms of the bid is to be published at the end of next month.

The Swedish parliament two weeks ago agreed to the SKr20bn ($3.53bn) rescue plan for Nordbanken to save it from possible financial collapse. It was then authorised that a limited company made up of five officials from the Ministry of Finance should administer the shares.

In the first quarter, the bank made a SKr1.97bn deficit and it expects a credit loss of between SKr6bn and SKr8bn for the full year.

● Standard and Poor's, the US credit rating company, yesterday placed Skandinaviska Enskilda Banken, Sweden's largest commercial bank, on credit watch with negative implications. It said that the action reflected "the continuing sharp deterioration of the bank's asset quality, together with the increased pressure on earnings cause by the rapid build-up of non-performing loans."

● Norway's Banking Association said yesterday that the country's troubled banks could begin to show a small profit next year after seven years of losses as long as there were no more setbacks. It estimated that while this year Norway's banks will lose NKr9bn ($1.46bn) in credit losses that will fall to NKr5bn by 1995.

It believes there will be an increase in income and higher charges on customers. But the association added that the weakness of the banks would make it difficult for them to help in a revival of the Norwegian economy.

ABN Amro close to sale of travel arm

ABN Amro, the Netherlands' biggest bank, is close to reaching a deal to sell its domestic travel agency business to Holland International, the country's biggest travel group. Holland International is 80 per cent owned by Kaufhof, the German retailer, writes Ronald van de Krol.

The bank's travel business generates annual turnover of over Fl 100m ($56.5m) and comprises five travel agencies and a business travel bureau. ABN Amro said in March it planned to sell the travel business.

Its German majority shareholder, Holland International is partly-owned by the Dutch railway, KLM Royal Dutch Airlines and the Nedlloyd transport group.

BMW has target of 70,000 cars a year at US plant

By Andrew Fisher in Munich

BMW, the German luxury car manufacturer, will invest an initial $400m at its planned US plant until production starts up in about three years' time, Mr Eberhard von Kuenheim, the chief executive, said yesterday.

At first, output will be small, consisting of cars built mainly from parts imported from Germany. But he said BMW aimed at annual production of up to 70,000 cars a year by the year 2000.

He was speaking at a press conference to announce the plant, the first to be set up abroad by a German luxury carmaker. He confirmed that it would be in the Greenville/Spartanburg area of South Carolina, as reported this week.

Noting that the US was the world's biggest car market, he said: "We have to maintain, secure, and build up the position we have achieved in the American market. This is becoming increasingly difficult to do from Germany."

Production costs in the US were about 30 per cent less than in Germany, he said. "We are too expensive in Germany." By the end of the century, the plant should employ some 2,000 people, with a similar number working for supplier companies in the area.

BMW's decision, which will also make it the only German car company with a US plant after Volkswagen's plant closure there in 1988, comes after a series of setbacks in the US for German manufacturers.

Sales of German models have been hit by US recession, fluctuations in the dollar, and the luxury goods tax. Mr von Kuenheim said 84 per cent of the money raised by the US tax was borne by purchasers of German cars.

This year, however, with the upturn in the market and new models, German car sales have picked up in the US. BMW reported a 24 per cent rise in the first five months to nearly 25,000 vehicles. Mr Robert Büchelhofer, marketing director, said BMW wanted to add 10,000 cars in the US this year to the 53,300 sold there in 1991 – 16 per cent down on 1990. In 1986, its best year in the US, it sold 97,000 cars.

Mr von Kuenheim would not say which models would be built in the South Carolina plant, which will make cars for worldwide export as well as sale in North America. He stressed that the product would be "a real BMW" and not a pale copy. The new US plant will also be inside the new North American Free Trade Area and thus avoid any possible trade restrictions there.

Baltica to shed staff in insurance reorganisation

BALTICA, Denmark's biggest insurance group, plans to change its structure to focus more on core activities which will enable it to reduce staff by 10 per cent over the next two to three years and cut its costs, Reuter reports from Copenhagen.

The company will merge the staff, computer and finance departments of the holding company with those of the banking, finance and insurance divisions.

It will also cut back on its involvement in the construction sector where it has backed a number of large projects.

The changes, from September 1, will leave general and life insurance as the group's core areas. Finance will be a secondary activity but Baltica Bank will remain a separate business.

Baltica reported a first-quarter net profit of DKr27m ($4.48m) against DKr558m a year earlier and said higher loss provisions for building projects and property purchases could affect the full-year result.

BfG Bank returns to the black for 1991

By David Waller in Frankfurt

BfG Bank, the former German trades union bank which has been through a painful restructuring process in recent years, yesterday reported a group partial operating profit - before trading profits - of DM120.5m ($76.2m) for 1991.

This represents a turnround of DM302.8m over 1990 when the bank reported a loss of DM182.3m. If own-account trading results were included, the turnround was more dramatic: the bank reported profits of DM221.1m last year compared with a loss of DM389.9m.

The better performance at this level reflected interest income up DM267m to DM970.5m and administrative and staff costs down by DM47.9m to DM1.13bn.

However, at the parent bank, losses at the partial operating level amounted to DM277m last year, compared with a profit of DM338m in 1990, reflecting extraordinary costs associated with the bank's restructuring. Stripping out the one-off items, the partial operating profit was DM60m, compared with a loss of DM259m a year earlier.

Speaking in Frankfurt yesterday, Mr Paul Wieandt, chief executive since early 1990 and architect of the bank's subsequent restructuring, said that in the first five months of the year the parent bank's profits were DM48m, DM23m up on the comparable period last year.

Mr Wieandt reiterated that a capital increase was likely next year or in 1994 and that the bank was considering raising a total of DM450m, partly to meet tougher capital adequacy rules in Germany. It was likely also that the bank's majority shareholders would have to contribute further capital to the bank this year.

Provisions against doubtful sovereign debt rose by DM3.2bn at the end of last year. Mr Wieandt did not say what the total provision was, but indicated that some 20 out of a total of 32 countries accounted for the total.

White goods war washes over Europe

Andrew Baxter on the link between Electrolux and AEG's household appliance unit

If Europe's status as the decisive battleground in the global white goods war has become increasingly apparent over the past five years, yesterday's deal between Electrolux of Sweden and Germany's AEG Hausgeräte simply rubbed the message home.

By taking a 10 per cent stake in the household appliances unit of AEG, part of Daimler-Benz, the Swedish multinational is signalling its intention to defend its leading position in a European white goods market whose competitive balance is being transformed by takeovers and co-operation deals.

The structural change is gradually breaking down national boundaries in the white goods industry, even if producers still have to allow for big variations in customer preferences. For medium-sized companies such as AEG, competing long-term will not be easy against larger producers which have organised production on a European or global basis, leading to lower costs and increased efficiency.

The two companies plan to co-operate in a restructuring of their respective production facilities for washing machines, tumble driers and dishwashers – and are limiting the deal to production and product development. Even so, both are keen to stress the deal's strategic rationale – to meet the increasing competition from the US and Japan in the European domestic appliances market.

This challenge is being spearheaded by Whirlpool of the US, the world's largest white goods producer, which last year completed the $1.1bn takeover of Philips' white goods business. Maytag, another US white goods producer, bought Hoover in 1989 when it took over Chicago Pacific, while the Anglo-American joint venture General Domestic Appliances, owned by General Electric of the US and the UK's General Electric Company, is a leading participant in the UK market and is looking for expansion opportunities in continental Europe.

The aim of the US producers, and especially Whirlpool, has been to transfer the production efficiencies learned in the heavily concentrated US market to a European market where profitability has been hampered by the industry's fragmented structure.

This, in turn, has encouraged some of the rationalisation among smaller European producers, which are realising that it is easier for larger producers to survive in tough market conditions. Electrolux itself, however, has been the other main force behind the industry's rationalisation and adoption of pan-European manufacturing and marketing, starting with the acquisition of Zanussi of Italy in 1984.

LEADING GROUPS (1991 European white goods revenues in $m)	
Electrolux	3,930
Bosch-Siemens	3,525
Whirlpool	2,250
Miele	1,535
AEG	1,474
Thomson EM	1,138
Gen Electric	*1,032

*General Domestic Appliances joint venture with GEC
Source: Annual reports, segment information converted into dollars at current rates.

In the background are the Japanese producers, notably Matsushita and Toshiba, which have avoided splashy acquisitions in the European market but are being closely watched by European competitors.

So far, Japanese producers have made less impact in the European market for appliances such as washing machines and dishwashers than in microwave ovens, which accounted for 13 per cent of European white goods sales last year and were almost entirely responsible for an increase in the total market to 56m units, according to Electrolux.

But the Japanese producers' manufacturing efficiency, and the financial strength that comes from a stranglehold on their home market, makes them potentially powerful competitors in the European market, and increases the pressure on indigenous suppliers to produce white goods more quickly and efficiently.

All these issues underly yesterday's announcement, prompting Mr Ruggero Bodo, vice-president for planning at Whirlpool International, to comment that the deal "confirms that our reading of the dynamics of the business is the correct one".

Inevitably, however, there are also some special factors behind the deal, giving it a strongly German flavour. Electrolux has been keen to expand its market share in Germany, Europe's largest single market, and last year's relaunch of its Electrolux brand as an "upper mass-middle market" product range was partly aimed at reasonably affluent middle class Germans who might think twice about buying a premium product such as a Miele or an AEG.

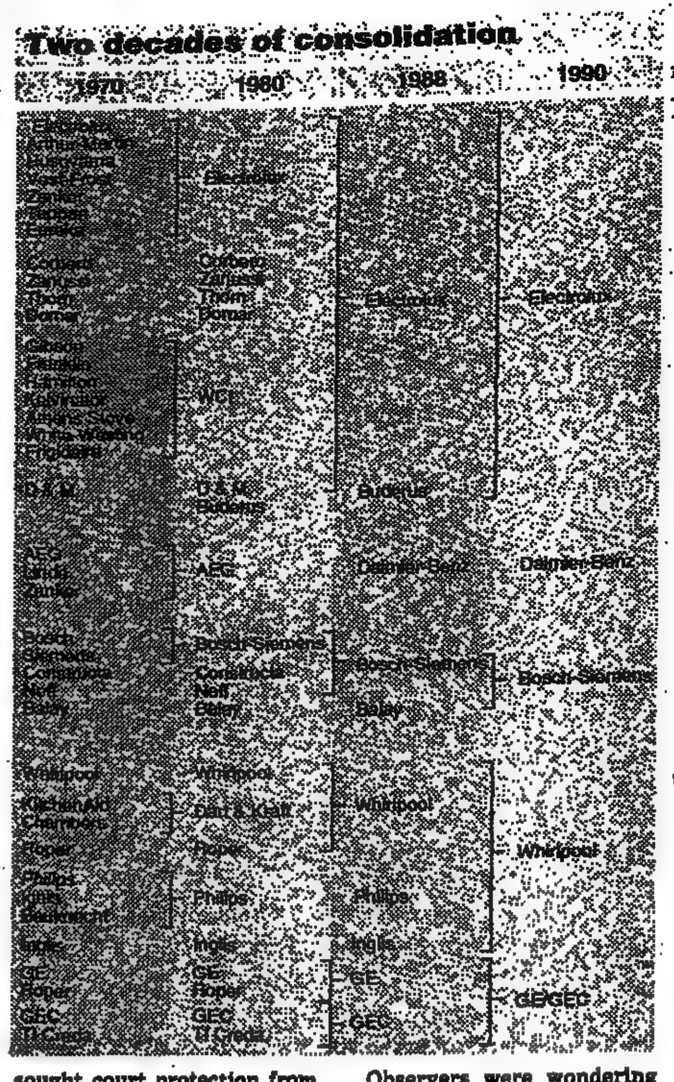
There have been rumours that Electrolux would try to buy AEG, but in settling for a production and product development deal it is sharing, albeit only partly, in what Mr Bill Coleman, an analyst at James Capel, calls "a good profitable business in Germany, highly-priced and very much a premium brand . . . AEG is an attractive company in white goods, less so in electronics."

Last year the German market in white goods showed continued strength, although Electrolux says growth dropped considerably in the second half of the year. Even so, the market is much healthier than its counterparts in the UK or the Nordic countries. "Germany is still holding up pretty well, although we don't see any increases," said Mr Lennart Ribohn, senior executive vice-president, this month.

At the European level, Electrolux believes co-operation with AEG will succeed because the companies have complementary rather than the same European markets. AEG is strong in Germany and Poland while Electrolux has a larger presence in Italy, Britain, Spain and the Nordic region.

For AEG, the deal brings economies of scale in white goods manufacturing without jeopardising the Hausgeräte unit's independence.

Foreign white goods producers have been involved in sporadic discussions with AEG ever since its parent company sought court protection from its creditors in 1982.



A domestic solution to AEG's need for critical mass seemed to be developing last autumn when Bosch-Siemens Hausgeräte, the German market leader, said it was negotiating a link-up. But that would almost certainly have provoked objections from Germany's Cartel Office.

There is no chance that the deal will have the same effect. Electrolux has only 5 per cent of the German market, against AEG's 13 per cent.

The deal will not, as initially structured, change the rankings in the western European market – Electrolux has about 18 per cent, followed by Bosch-Siemens with 13 per cent and Whirlpool with 9 per cent.

Observers were wondering yesterday whether the deal was the prelude to a closer financial link-up or even a full takeover. Electrolux has the option to raise its stake in AEG Hausgeräte to 20 per cent, and Mr Anders Scharp, the Swedish company's chairman, said the proposed co-operation was the "first step in a larger co-operative investment especially when it came to research and development in washing machines and tumble dryers".

Given AEG's long search to maintain independence for its white goods business while addressing the wider changes in the industry, a full takeover looks unlikely.

Additional reporting by Robert Taylor in Stockholm and David Waller in Frankfurt.

Hewlett buys TI minicomputer unit

By Louise Kehoe

HEWLETT-PACKARD is to acquire Texas Instruments' minicomputer business in a bid to expand its customer base in the commercial Unix minicomputer market. The companies said that they have signed a letter of intent and expect to complete the transaction this autumn.

Terms of the deal were not revealed. However, the annual revenues of the TI business unit are said to be about $200m, according to industry estimates. TI said that the unit had operated profitably for the past two quarters.

"This is the latest step in our strategy to aggressively expand our position in the commercial Unix market," said Mr Lewis Platt, H-P executive vice-president.

H-P is the leader in the Unix minicomputer market. The acquisition will enable H-P to accelerate sales in a slow growth market by tapping into TI's base of 125,000 customers worldwide and gaining access to market segments such as retail and wholesales distribution in which it has not previously participated.

Also attractive to H-P is TI's network of value added resellers (VARs). TI has traditionally sold its computer systems almost exclusively through VARs that include leaders in vertical markets such as automotive dealerships, services, and health care.

H-P said that there is very little overlap between its own customer base and that of TI, so it expects the acquisition to provide incremental business. The planned sale give Texas Instruments an opportunity to focus more sharply on its key businesses.

The electronics and semiconductor manufacturer will, however, retain other parts of its information technology group including notebook computers and printers.

H-P said that it will continue to support TI's minicomputer products and will offer the products for as long as there is market demand. The company's goal, however, is to gradually migrate TI's customers to H-P minicomputers.

The acquisition will lead to layoffs. H-P plans to employ approximately 450 of the 1,600 employees currently working for the TI computer systems and services business unit.

Mr John White, TI vice-president and president of TI's information technology group, said: "The planned sales is consistent with TI's strategy in information technology to concentrate our investment and emphasis on software productivity tools, as well as on hardware where we have a sustainable competitive advantage."

Samsung applies to join vehicle producers

By John Burton
In Seoul

SAMSUNG, South Korea's largest conglomerate, yesterday applied for government permission to become the country's sixth vehicle manufacturer.

Samsung Heavy Industries, the group's shipbuilding unit, plans to produce construction vehicles, such as concrete mixers and dump trucks, in technical co-operation with Nissan Diesel of Japan.

Samsung's entry into the vehicle sector is being opposed by the nation's five automotive companies, Hyundai, Daewoo, Kia, Asia and Ssangyong.

They suspect that Samsung wants to move eventually into the nation's already crowded passenger car industry, although Samsung denies it has any such intention.

The government has 20 days to rule on Samsung's application to import truck technology from Nissan. Two previous attempts by Samsung to enter the vehicle industry were blocked by the government. But officials indicated yesterday that Samsung will be allowed to proceed this time.

Samsung will spend Won72bn ($90m) on the project, which will include the construction of a factory near its shipbuilding yards in Changwon. Production will begin in 1994 with 1,200 trucks, rising to 3,360 vehicles by 1997.

Samsung will export more than 40 per cent of its trucks. It said the manufacture of construction vehicles was an extension of its production of other construction equipment.

Correction
Nestlé/Dairy Farm

A REPORT in the Financial Times yesterday incorrectly stated the value of a deal between Nestlé and Dairy Farm. Nestlé is paying HK$1.25bn (US$161m) for 51 per cent of Dairy Farm's manufacturing assets in Hong Kong and southern China.

LTV challenges labour deal

By Nikki Tait in New York

LTV, the large US steelmaker which has been operating under the protection of Chapter 11 of the bankruptcy code for the past six years, said that its steel unit had asked the bankruptcy court for authority to reject its labour agreement with the United Steelworkers of America (USW).

The union speedily retaliated, however, threatening industrial action if the current collective bargaining agreement is thrown out. "We have repeatedly told the company that if its petition results in the rejection of our labour contract, a work stoppage would follow," said Mr Anthony Rainaldi, chairman of the union's negotiating committee.

"There is no question that the company risks committing suicide with this step, and the negotiating differences between us do not warrant that risk," he said.

The increased tension comes in the wake of an LTV reorganisation plan, which was hammered out earlier this year and appeared likely to win the backing of the group's leading creditors. If implemented, this would finally allow the company to emerge from bankruptcy. However, the plan pegged creditors' recoveries to union concessions, and management at LTV's steel division has subsequently held a series of talks with the USW.

Under US bankruptcy law, a debtor can, with court approval, reject a labour agreement if negotiations fail to produce an acceptable new accord. It can then effectively impose its own terms.

LTV said "deep fundamental differences" still separated the union and the management positions, even after the latest round of bargaining which started on May 18. It added, however, that it was committed to "good faith bargaining" and did not intend to implement "unilateral modifications to the labour agreement" until the outcome of the sale of its aerospace and defence division was certain.

By contrast, the union claimed that LTV had walked out of negotiations, and accused the company of "stubbornly sticking to all of its concession demands, both for active and retired workers". It said it was making "preparations for the upcoming fight".

When LTV first raised the possibility of revoking the labour contract in April, the union said that it would not permit the wages and benefits of its members and pensioners "to be held hostage".

"If the company persists in its misguided strategy, there will be serious repercussions in the plants and the marketplace," it warned in April.

Yue Yuen issue attracts firm demand

By Simon Holberton
in Hong Kong

THE STRENGTH of demand for an exposure to the Chinese economy was underlined yesterday when investors stumped up nearly HK$30bn (US$3.8bn) in their rush to buy a slice of Yue Yuen Industrial Holdings, a Taiwanese-controlled manufacturer of sports shoes in southern China.

The Yue Yuen new issue was for 550m shares of HK$1.18 to raise HK$649m. Last night, the company's advisers, Standard Chartered Asia, said the issue, for 25 per cent of the company, was 45.39 times oversubscribed.

The company, which is controlled by Mr Tsai Chi Jen and his brother Mr Tsai Chi Neng, manufactures Adidas, Nike, and Reebok sports shoes, among others, at its Dongguan factory, south of Guangzhou (Canton).

It plans to open another factory in the city of Zhongshan, also in Guangdong province.

The brothers will retain 70 per cent of the company. A further 5 per cent has been placed privately by Jardine Fleming.

Mr Ambrose Lam, director of corporate finance at Standard Chartered Asia, said the market was attracted to Yue Yuen because it was a pure China stock. It was well-managed and achieved high margins.

Toshiba and Apple join forces

By Steven Butler in Tokyo

TOSHIBA, the Japanese electronics company, and Apple Computer, the US personal computer maker, yesterday joined forces to develop a next-generation portable consumer electronics product capable of reproducing video images and sound from a small laser disc.

The agreement is an important plank in Apple's strategy of developing a range of hand-held, digital electronic devices as an adjunct to its basic business. Apple calls the devices "personal digital assistants".

For Toshiba, the agreement opens the possibility of reviving growth in the company's flagging consumer electronics business. Over the past year, Toshiba has quietly withdrawn all its audio products, such as tape recorders and stereo systems, although it remains a large manufacturer of televisions and white goods.

The companies yesterday had little specific information about the planned product, except that it would be marketed by the middle of next year and be based on CD-ROM, compact discs with read-only memory. The companies were also talking to Time Warner, the media conglomerate in which Toshiba has a 6.25 per cent stake, about providing titles to play on the machines.

Very likely, the machine will have a small display, be capable of reproducing moving video images, and allow for interaction with the user. The companies hoped to sell 5m of the devices annually by 1995.

The market for the type of product that Apple and Toshiba have in mind, however, has yet to be established, and is already becoming crowded with potentially competing devices. Indeed, Mr John Sculley, Apple chairman, said Apple would launch a consumer CD-ROM device before Christmas, and it was unclear yesterday how, or whether, the two products would be related.

Philips has already launched a CD-I (CD interactive) format that has failed to stimulate much interest in the market. Yesterday, Philips and JVC, said they would further develop the format for use as a motion picture singalong karaoke system. Sony has also successfully launched its Data Discman, an electronic book device that allows for simple interactive functions.

A basic problem facing all makers of such machines is the lack of appealing software, or titles to play. Both Nintendo and Sega Enterprises have successfully launched CD-ROM machines for games. CDs have attracted attention because they can store a huge amount of textual, video, or audio data while allowing almost instant access.

Apple is trying to generate excitement about the devices among consumers, and is hoping to use its expertise in software development and user interaction to produce a machine that stimulates demand and establishes a de facto industry standard.

Apple said it selected Toshiba as a partner because of Toshiba's expertise in semiconductors and miniaturisation, and because of its links with Time Warner. Toshiba also has experience in the consumer electronics field, which Apple lacks.

PHILIPS, the Dutch electronics company, is teaming up with JVC, the Japanese audio equipment manufacturer, to produce a karaoke version of the Dutch company's new "interactive" compact disc, writes Ronald van de Krol in Amsterdam.

The two companies said yesterday that they expected to be able to make a large number of "karaoke CDs" available by the end of the year, enabling consumers to enjoy karaoke at home.

Compact Disc Interactive (CD-I), which Philips is launching this week in continental Europe after earlier launches in the UK and the US, combines images, sound, graphics, and texts on a single CD. When hooked up to a television, the new CD-I player will be able to play karaoke CDs that flash the words to songs on to the television screen.

Argus increases earnings 20%

By Philip Gawith
in Johannesburg

BUOYANT advertising revenues in the second half helped Argus Holdings, South Africa's largest media and publishing group, to record a 20 per cent increase in earnings in the year to March.

Depressed economic conditions and continuing political uncertainty were reflected in the modest turnover increase to R2.01bn from R1.81bn. A strong emphasis on cost containment and maintaining margins, however, helped boost trading income by 16.3 per cent to R194.5m.

Net income after tax was 18.5 per cent higher at R102m ($36m), while equity accounted earnings were 18 per cent higher at R143.6m. Attributable income rose by 23 per cent to R89.7m. Earnings per share were 20.3 per cent higher at 213 cents.

Although the advent of premium service telephone calls helped boost advertising revenues, Argus Newspaper publications were faced with a generally difficult circulation market.

The exception was the Sowetan whose continued growth established it firmly as the country's largest daily newspaper. After-tax earnings rose by 35 per cent. Printing and packaging company CTP Holdings fared even better, recording a 64 per cent increase in earnings, also assisted by a better advertising market.

CNA Gallo was hard hit by the increased pressure on consumer spending. Earnings dropped by 4 per cent. Times Media did well to lift earnings by 32 per cent, while M-Net's earnings fell by 14 per cent owing to a much higher tax bill and anticipated losses in its new FilmNet acquisition.

The dividend was only 10 per cent higher at 55 cents per share.

Offers raised in UPI bid battle

By Karen Zagor
in New York

UNITED Press International (UPI), the embattled US news agency, yesterday became the subject of a bidding war between the London-based Middle East Broadcasting Centre, Mr Leon Charney, the US real estate lawyer, and the Rev Pat Robertson, the television evangelist.

At a bankruptcy court hearing yesterday to determine the fate of the 85-year-old news agency, all three potential rescuers increased their offers, agency reports suggested.

Mr Robertson, who earlier this month withdrew his $6m takeover offer for UPI, raised his bid for some of the wire services's assets, its name and access to its photo library to $900,000 from an earlier $500,000 offer.

Middle East Broadcasting, which uses satellites to broadcast news to the Middle East, put forward a $3.95m all-cash bid and said it was willing to inject up to $12m over the next two years to make UPI viable and profitable.

Mr Charney, who initially offered to pay $3.6m in cash and equity for UPI, increased his offer to $3.9m in cash and said he was willing to match Middle East Broadcasting's infusion of funds to revive UPI.

INTERNATIONAL CAPITAL MARKETS

German issues fall on disappointing money supply data

By Sara Webb in London and Patrick Harverson in New York

GERMAN government bonds fell steeply following the release of worse-than-expected German money supply figures which dashed hopes of an easing in German interest rates by the end of the year.

GOVERNMENT BONDS

The M3 money supply rose 9 per cent in May on an annualised basis, up on April's figure of 8.9 per cent and well above the market's expected range of 8.5 to 8.8 per cent.

The latest figures were seen as very disappointing, killing hopes of a slowdown in German money supply growth. The Bundesbank's stated target range for M3 growth is 3.5 to 5.5 per cent.

The Liffe bund futures contract, which opened at 88.01, plunged to a low of 87.63 on the news, before picking up to trade at around 87.67 by late afternoon.

The German money supply figures also took their toll on some of the other European bond markets, pushing down Dutch and French government debt prices.

Dealers said the fall in French government bonds was accentuated by reports that the French referendum on ratifying the Maastricht Treaty could be brought forward from September to July. On the Matif futures exchange in Paris, the September bond futures contract closed at 107.06, down 0.16 from Monday's close. The futures contract fell from its high of 107.34 to reach a low of 106.82 after the release of the German money supply data.

■ UK government bond prices fell as the release of worse-than-expected German money supply figures led to concern that German interest rates were likely to remain high for some time and thereby reduce the chances of an easing of UK interest rates.

Supply concerns also continued to trouble the gilt market before today's auction, when the Bank of England plans to sell £2.75bn of the 9 per cent Treasury stock due 2012.

Trading in the futures market was reasonably active, with a volume of 35,000 contracts. The Liffe gilt futures contract opened at 97.21 and slipped to 97.14 by late afternoon. In the cash market, long-dated issues fell more than a quarter of a point with the benchmark 11¾ per cent gilt due 2003/07 falling from 115⅞ to 115⅝, yielding 9.39 per cent.

■ US Treasury prices were little changed yesterday after the big afternoon auction of two-year notes.

In late trading, the benchmark 30-year government bond was down ⅛ at 101⅞, yielding 7.838 per cent. There was a similar slight negative bias at the short end of the market, where the two-year note was down ⅛ at 100¼, to carry a yield of 4.986 per cent.

Trading in the morning session was dominated by the manoeuvrings of dealers before the sale of $15bn in two-year notes. Demand for the new paper was not expected to be strong, which depressed prices at the short end.

Some traders had noted that two-year prices had been artificially buoyed in recent days by expectations that stock markets worldwide were heading for a substantial correction and the subsequent modest recovery in Tokyo and New York equity markets meant the two-year auction might be beset by weak demand. The sale of the two-year notes, however, passed with little fuss, averaging a yield of 5.11 per cent amid solid retail demand.

■ JAPANESE government bonds drifted lower ahead of today's auction of 10-year government debt, but traders said the market was well-supported by hopes of an easing in interest rates. The benchmark No 129 issue opened with a yield of 5.37 per cent and ended the day at 5.385 per cent, while the September futures contract fell from its opening of 102.46 to close at 102.38.

Dealers expect the finance ministry will auction about Y800bn of 10-year bonds today. The bonds issued at last month's auction carried a coupon of 5.6 per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.7896	-0.073	8.83	8.87	9.18
BELGIUM		9.000	08/01	100.3600	-0.100	8.84	8.93	8.77
CANADA *		8.500	04/02	101.8800	-0.300	8.22	8.10	8.42
DENMARK		9.000	11/00	99.1200	+0.070	9.14	9.11	8.76
FRANCE	BTAN	8.500	03/97	97.8641	-0.258	9.05	8.97	8.88
	OAT	8.500	11/02	97.7400	-0.190	8.82	8.77	8.46
GERMANY		8.000	01/02	99.7200	-0.310	8.03	7.96	7.81
ITALY		12.000	05/02	95.9800	+0.120	13.13†	13.26	12.54
JAPAN	No 119	4.800	06/99	96.0400	-	5.59	5.69	5.72
	No 129	6.400	03/00	105.5462	-0.205	5.39	5.47	5.47
NETHERLANDS		8.250	02/02	99.4100	-0.160	8.33	8.28	8.28
SPAIN		11.300	01/02	98.9500	+0.120	11.45	11.65	10.85
UK GILTS		10.000	11/96	105-10	-10/32	9.26	9.19	9.11
		9.750	08/02	103-07	-11/32	9.25	9.15	8.95
		9.000	10/08	98-00	-10/32	9.12	9.03	8.79
US TREASURY *		7.000	05/02	101-27	-	7.23	7.28	7.35
		8.000	11/21	101-24	-11/32	7.84	7.84	7.83
ECU (French Govt)		8.500	03/02	96.8700	-0.020	8.99	9.01	8.57

London closing, *New York closing. Yields: Local market standard

† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)

Prices: US, UK in 32nds, others in decimal. *Technical Data/ATLAS Price Sources*

Hitachi appoints foreign pension fund managers

By Stefan Wagstyl in Tokyo

FOREIGN investment advisory companies have scored a significant victory in their long-standing battle to break into Japanese corporate pension fund management.

Hitachi, the electronics combine and controller of Japan's largest corporate pension fund, has awarded pension fund management contracts to the Tokyo subsidiaries of two British companies – Invesco MIM and Mercury Asset Management, an affiliate of the S G Warburg financial group.

Hitachi is the third company to hire foreign investment advisers.

The first was Nagasakiya, a medium-sized retail group, which awarded funds to Invesco MIM earlier this year. This was followed by Toyota Motor which gave a contract to Merrill Lynch International Capital Management.

However, since Toyota holds a 40 per cent stake in Merrill Lynch Capital Management, Hitachi has become the first top-rank blue-chip Japanese company to award pension fund management contracts to independent foreign advisers.

Invesco MIM and Mercury will each be awarded around Y1bn ($7.8m). Ten other fund management groups, all Japanese, will also receive management contracts.

However, foreign investment managers believe that, despite Hitachi's decision, winning pension fund management contracts will still be difficult for foreign companies.

Under government regulations, companies can award to newly-appointed fund managers only a proportion of the new money flowing in – they cannot reapportion assets already parcelled out to their long-established fund managers. Hitachi's Y1bn contracts with Invesco MIM and Mercury are a small fraction of its total pension fund of about Y400bn.

Also, foreign fund managers complain that Japanese companies continue to award fund management contracts to financial groups with which they already have other kinds of dealings, such as banking or securities business. Foreign fund managers believe that attitudes are changing, but only slowly.

Swift fears loss of customers as growth slows

By David Barchard

SWIFT, the interbank financial telecommunications organisation, is worried it is losing customers among the banks to new internal bank networks and other telecommunications companies.

Growth in the core business of Swift, which transmits fixed format electronic messages on payments to banks within its network, slowed in 1991 in spite of the introduction of an expensive new network with increased message capacity.

Mr Eric Chiltern, group payments director of Barclays Bank who has just been appointed chairman of Swift, said the company needed a clearer idea of its future direction.

He is setting up an 11-member policy committee to decide on a new market strategy.

"We are at a watershed in the banking industry. Everyone is moving over into other branches and saying 'I can do things' like telecommunications," Mr Chiltern added.

Burton paper backed by deal to sell property portfolio

By Simon London

BURTON Group, the UK retailer, yesterday raised £60m ($108m) from a bond issue backed by an agreement to sell its remaining property portfolio to institutional investors.

INTERNATIONAL BONDS

The deal provides Burton with cash to repay bank borrowings and a guaranteed exit from the UK property market after five years.

The five-year zero-coupon bonds, issued by Redcastle, a group subsidiary, have a redemption value of £100m but were sold to investors at 60.98 per cent of face value. The funds to redeem the paper will come from the sale of Burton's property portfolio, comprising six retail and office developments.

Scottish Amicable and CIN Properties, the property arm of the British Coal pension funds, have agreed to buy the properties for £100m in 1997 if there is no sale before this date. The institutions received a fee for "underwriting" the sale of the properties at this level.

After legal and underwriting expenses and the fees paid to the two institutions, the issue provides Burton with fixed-rate sterling funding at a cost of around 10.8 per cent. Mr Richard North, Burton finance director, said the proceeds of the issue would be used to repay bank debt. Burton did not replace a £250m multi-option syndicated loan facility which matured last month, relying instead on bi-lateral bank facilities.

In August, the group must pay £150m to holders of convertible bonds, which carry an investor put option at a premium to face value. The proceeds of yesterday's issue will free bank credit lines to meet the repayment.

"The deal improves our funding mix and extends the maturity of our debt. The zero coupon structure also offers us a considerable cash-flow advantage," said Mr North.

The credit quality of the issue hangs on the strength of the agreement with Scottish Amicable and CIN Properties to buy the six properties. Mr North said the company had spent months structuring the deal with lawyers to ensure the undertaking was unconditional.

Warburg Securities, which placed most of the bonds with UK institutional investors, priced the paper to yield around 90 basis points more than UK government bonds of similar maturity. There are no comparable issues outstanding. However, the yield spread is close to the level at which building society bonds trade in the secondary market.

The properties were valued in Burton's last accounts at £100m. Mr North said the company would make no accounting adjustment until properties were actually sold.

Elsewhere, the mainstream international bond market remained subdued. Depressed conditions in most European bond markets and an auction of Treasury stock in the US kept potential borrowers on the sidelines.

Council of Europe issued $80m floating-rate paper under its medium-term note programme. Following the recent trend, the issue was fully underwritten by the dealers to the programme, lead-managed by Lehman Brothers.

The two-year paper pays the three-month London interbank offered rate, subject to an upper limit of 5¼ per cent for the first year and 6½ per cent in the second year.

● North of England Building Society yesterday became the smallest UK mutual savings institution to raise core capital with an issue of permanent interest bearing shares (Pibs).

The 21st-largest building society by assets, it placed £20m undated shares with UK institutional investors at a yield spread of 350 basis points over long-dated gilt-edged securities. The placing was arranged and underwritten by Charterhouse.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Council of Europe(b)‡†	80	(b)	100	1994	(b)	Lehman Bros. Intl.
Kia Steel(c)§†	25	3.5	100	2007	2.5/1.5	Schroder Secs.
STERLING						
North of England B.S(d)†	20	12.625	100.188	(d)	1.125/	Charterhouse Bk.
Redcastle(e)†	100	zero	60.98	1997	25bp	Warburg Secs.
D-MARKS						
Tsukada Tokan(a)☆☆†	10	9	101.125	1997	1.625/1.125	IBJ

☆☆Private placement. §Convertible. ‡With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Coupon pays 3-Month Libor flat and capped at 5.25pc in the first year and 6.5pc thereafter. Fees undisclosed. Non-callable. c) Callable from 13.7.1994 at par. Put option on 13.7.1997 at 129.627pc. Conversion premium fixed at 7.85pc. d) Issue of Permanent Interest Bearing Shares (PIBS). Undated and non-callable. e) Backed by an agreement to sell properties for a total of £100m in 5-years' time. Non-callable.

Grasim delays issue launch

By Sara Webb

GRASIM, the Indian cement, textiles and fibre group which was hoping to raise $90m through an international equity offering this week, has had to delay pricing and launching the issue following the recent halt in trading on the Bombay Stock Exchange in connection with the Indian financial scandal.

INTERNATIONAL EQUITY ISSUES

Grasim is the second Indian company to plan an international equity offering, following Reliance, the petrochemicals group which raised $150m in an equity offering last month.

Mr Ralph Fox, head of the equity syndicate at Citicorp, the lead manager to the Grasim offering, said the offering "would be placed on hold until the Bombay stock market reopens and trading stabilises".

Grasim has already said it will not increase the size of the equity offering above $100m following complaints about Reliance's decision to increase its issue from $100m to $150m.

The decision to increase the size of the Reliance issue annoyed some investors who had hoped to be rewarded with a premium on the global depositary shares once trading started. Reliance saw a sharp fall in its share price after the international offering – from its pricing of $16.35 on May 26 to as low as $10.50 on June 18.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on June 22

U.S. DOLLAR STRAIGHTS — Issued, Bid, Offer, Chg. day, Yield; OTHER STRAIGHTS; DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	69	12
Other Fixed Interest	1	6	8
Commercial, Industrial	197	345	899
Financial & Property	96	185	514
Oil & Gas	6	27	55
Plantations	0	0	9
Mines	31	32	87
Others	20	60	50
Totals	352	724	1,634

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Annualised dividend. b Figures based on prospectus or other official estimates. c Dividend rate paid or payable on part of capital; cover based on dividend on full capital. q Assumed dividend and yield. q Earnings based on preliminary figures. u cover based on dividend on full capital. q Assumed dividend rate, cover based on previous year's earnings. z Ex-dividend. F Dividend Forecast or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. & Offered to holders of ordinary shares as a "rights". † Introduction. ‡ Placing price. ¶ Reintroduction. ‡ Unlisted securities market. ◊ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings — June 22
- Last Dealings — July 3
- Last Declarations — Sept. 17
- For settlement — Sept. 28

3-month call rate indications are also shown on this page.

Calls in: Amstrad, BM Group, Brit. Steel, Microfilm Rep., M.L Hldgs., Proteus, Queens Moat, Sears and SEET. Put in: Ferranti. Puts & Calls: ADT and Amber Day.

LIFFE EQUITY OPTIONS

CALLS / PUTS — Option: Allied-Lyons, ASDA, Brit. Airways, SmKl Beecham A, Boots, B.P., British Steel, Bass, C & Wire, Courtaulds, Cons. Gold, Fisons, GKN, Glaxo, ICI, Kingfisher, Ladbroke, Land Securities, M & S, Sainsbury, Shell Trans., Storehouse, Trafalgar, Unil. Biscuits, Unilever; BAA, BAT Inds, BTR, Brit. Telecom, Cadbury Sch, Eastern Elec, Guinness, GEC, Hanson, Lasmo, Lucas Inds, P. & O., Prudential, Redland, R.T.Z., Scot. & New, Tesco, Thames Water, Vodafone, Abbey Natl., Amstrad, Barclays, Blue Circle, British Gas, Dixons; Eurotunnel, Gillette, Hillsdown, Lonrho, Midland Bk, National Power, Nat West Bk, Thorn EMI, Trusthouse, TSB, Vaal Reefs, Wellcome, Scottish Power; EURO FT-SE INDEX; FT-SE INDEX

[illegible]

TRADITIONAL OPTION 3-month call rates

	p								
■ INDUSTRIALS		Charter Cons.	37	Ladbroke	18	Sears	8½	■ OILS	
Allied-Lyons	49	Comm Union	34	Legal & Gen	29	SmKl Bchm A	60	Aviva Pet	25
Amstrad	5	Courtaulds	[illegible]	Lex Service	22	TI	55	BP	18
Astec (BSR)	5	Eurotunnel	32	Lloyds Bank	[illegible]	TSB	11½	Burmah Castrol	[illegible]
BAT Inds	58	FKI	6	Lonrho	12	Tesco	22	Conroy Pet	6½
BOC	53	FNFC	7	Lucas Inds	12½	Thorn EMI	83	Gaelic Res	½
BTR	35	Forte	19	Marks Spencer	27	T & N	11½	Premier Cons	2¾
Barclays	29	GKN	33	Midland Bank	30	Unilever	70	Shell	35
Blue Circle	24	Gen Accident	36	NatWest Bank	26	Vickers	15	Tuskar Res	½
Boots	34	GEC	17	P & O Dfd	37	Wellcome	75	■ MINES	
Bowater	60	Glaxo	52	Racal Elect	5½	■ PROPERTY		RTZ	47
Brit Aerospace	26	Grand Met	38	RHM	18	Brit Land	18		
British Steel	7	GRE	13	Rank Org	55	Land Sec.	30		
BT	25	Hanson	18	Ratners	3	MEPC	26		
Cadburys	38	ICI	95	Reed Intl	44	Mountleigh	1½		

Financial Times Annual Report Service

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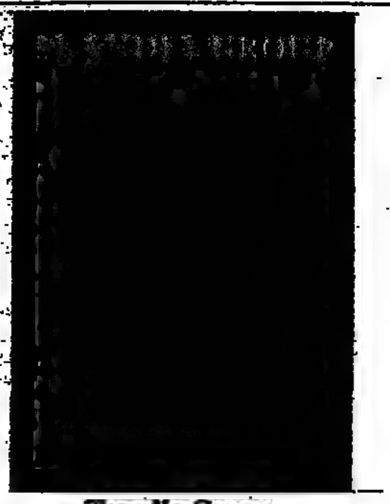

Skandia Group

Skandia Group Insurance Company Ltd., is an international corporation engaged in insurance and related financial services. The Group is based in Sweden and has the Nordic countries as its home market. Since its foundation in 1855, Skandia has been among the leading Swedish insurers.
Since the last few years Skandia Group has become progressively more international with offices outside Scandinavia mainly in EC countries and the U.S. The insurance operations are supported by extensive investment management operations. The total gross premium income in 1991 amounted to SEK 38 billion and total assets surpassed SEK 200 billion.

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Roche

Roche is a Swiss-based international health-care group employing over 55,000 people worldwide. It is a research-driven company with a leading position in biotechnology and activities covering the entire health spectrum of prevention, diagnosis and treatment of disease. In addition to pharmaceuticals Roche is also engaged in the fields of vitamins and fine chemicals, diagnostics, fragrances and flavours as well as liquid crystals. In 1991 Roche Group consolidated sales amounted to Sfr 11,451 million (US$ 8,008 million). Consolidated net income was Sfr 1,482 million (US$ 1,056 million). Group research and development expenditure reached Sfr. 1,727 million (US$ 1,208 million).

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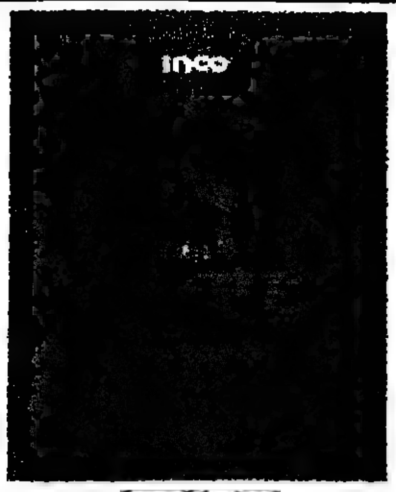

Inco Limited

Inco Limited is one of the world's premier mining and metals companies. It is the leading producer of nickel, supplying about one-third of world demand. It is also a major producer of high-nickel and other alloys. In addition, Inco is an important producer of copper, cobalt and precious metals. In 1991, Inco earned US$ 85 million on sales of US$ 2.999 billion.

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Paribas

Paribas is one of the world's leading banking and financial groups. Established simultaneously in France and the Netherlands in 1872, Paribas has evolved into a multi-faceted international group with strong French roots, active in nearly 60 countries around the world. Businesses are organized around four autonomous, decentralized units: wholesale banking, conducted by Banque Paribas; specialized financing, through Compagnie Bancaire; retail banking in France, through Crédit du Nord; and management of an extensive portfolio of diversified equity investments in industrial and commercial companies.

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Aker a.s

Aker is one of Norway's largest industrial groups. Its activities encompass cement and building materials and oil and gas technology. Aker holds a strong position domestically in cement and building materials and has a significant international cement business. It is also Norway's leading company in oil and gas technology, with a comprehensive range of services and a growing international presence. Turnover in 1991 increased to NOK 13,600 million. The effect of weak markets in certain sectors and a substantial provision on one contract led to a fall in profit before extraordinary items to NOK 92 million. At the end of the year Aker had 15,300 employees.

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ASSI

ASSI is one of Europe's leading manufactures of paper and packaging board. We are also one of the largest producers of corrugated-board products in Europe. ASSI's gross sales for 1991 were MSEK 8,106. The result after financial items was a deficit of MSEK 145. The loss was mainly due to the decline of the market pulp price. The ASSI Group has 7,815 employees with manufacturing companies in Belgium, Denmark, France, Germany, Great Britain, Italy, the Netherlands, Sweden and Switzerland.

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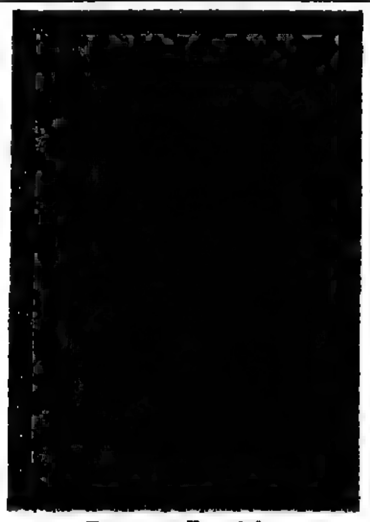

Intrum Justitia

Intrum Justitia is Europe's largest debt collection company, offering a range of Inkasso and credit management services. The Group is listed on the London Stock Exchange and has subsidiaries in 14 European countries complemented by a network of 120 agents worldwide. In 1991, pre-tax profits rose 35% to £11.6 million, on turnover up 48% to £75.5 million. At the year end, Intrum Justitia had 45,000 clients and a stock of over 2 million collection cases, worth £600 million.

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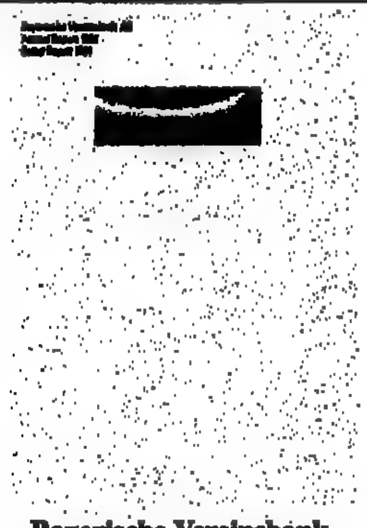


Bayerische Vereinsbank

Bayerische Vereinsbank, the largest mortgage banking group in Europe and one of Germany's five largest private banking groups, continues to expand its network. The group has now 750 branches all over Germany and is represented in the major financial and economic centres in Europe, as well as in the U.S., Japan, Hong Kong, South America, South Africa and the Middle East. The Bank belongs to one of the nine banks in the world with the highest asset quality. In 1991, total earnings increased at twice the rate of total costs. Partial operating profits thus expanded by more than 30%. DM 218 million was distributed to shareholders with a dividend of DM 13 per share. Total assets are DM 226.6 bn.

25

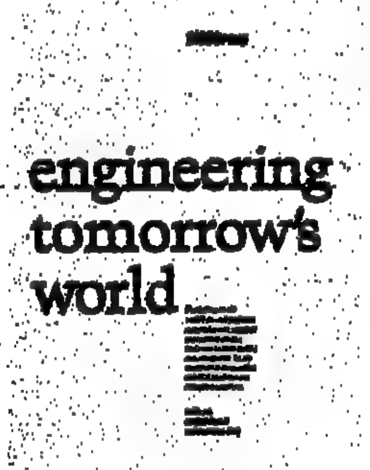
HAVAS REPORT 1991

Havas

Havas holds unique positions in Europe through a network of subsidiaries active in outdoor advertising, free- sheets, directories, international multi-media representation, travel agency business, full-service advertising, publishing and pay-TV. Havas is France's largest media and communications group. International operations generated 30% of consolidated revenues to year end 1991.

Revenues 1991:	FF 26.5 billion
Net income, group share 1991:	FF 1.083 billion
Chief Executive Officer:	Pierre Dauzier

26



BICC plc

BICC is a leading international engineering business. It serves the international marketplaces for infrastructure development in power, communications, transport and building. BICC aims to achieve market leadership in its major core businesses of cables and construction. It is dedicated to total quality, technical excellence and the satisfaction of customer need. BICC's future prosperity will be based on the development and exploitation of its competencies in cable manufacture and contracting. Management and financial resources are increasingly focused on strengthening these skills and finding new opportunities to deploy them. We are confident that our core businesses will continue to grow stronger, providing a sound basis for growth.

27

ASEA AB

ASEA AB owns 50-per cent of ABB Asea Brown Boveri Ltd. In the four years since its formation ABB has become a world leader in power generation, transmission, and distribution as well as in the industrial process, environmental control, and rail transportation fields. The Group's focus on local customer needs combined with the global scale of its technical, production, and financial resources make it uniquely able to serve its markets. During 1991 ABB successfully adjusted its operations to changing economic conditions while continuing to invest in new markets and growth opportunities.

28

AEGON INSURANCE GROUP

AEGON is a leading international insurance group with headquarters in The Hague, The Netherlands. The Group offers a full range of insurance products with a focus on life insurance. AEGON's most important markets are The Netherlands and the United States of America. The other companies of AEGON are based in Belgium, Spain and Portugal, the United Kingdom, Greece, Cyprus, Hungary, and the Caribbean.
In 1991 revenues rose by 13% to NLG 13.6 billion. Operating income increased by 11% to NLG 713 million. Taking into account the stock dividend, operating income per share rose by 2.7% from NLG 15.14 to NLG 15.55.

29

Statoil

The Leading Scandinavian Oil Company * The Norwegian integrated oil company * Operator of two of the worlds largest offshore fields- Statfjord and Gullfaks *Leading seller of North Sea Crude oils-1,1 mill.bbl/day * Major seller of Norwegian Natural Gas * Refining capacity appr.10.000 tonnes *Major Scandinavian retail business company * Operator of major pipeline systems connecting the Norwegian Continental Shelf and the Continent.* Petrochemical activity in Scandinavia and on the continent* Satisfactory earning performance also in 1991* Operating revenue increased to 78,3 billion NOK* Profit before tax 12, 8 billion NOK.

30

The S-E-Bank Group

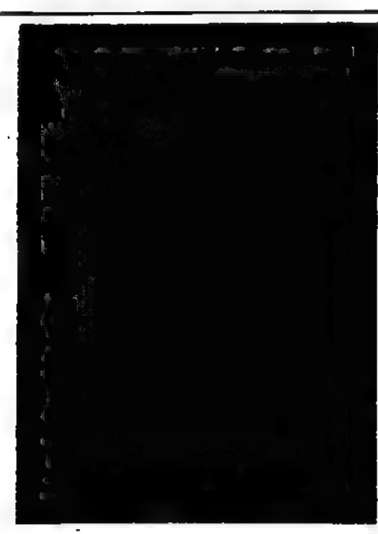
The S-E-Bank Group – Skandinaviska Enskilda Banken with subsidiaries – is the largest banking group in Sweden and in Scandinavia with total assets of SEK 451 billion in 1991. The S-E-Bank Group's operating profit before lending losses in 1991 increased by 30 per cent to SEK 7.1 billion, while profit after losses decreased by 30 per cent to SEK 2.3 billion. Shareholders' equity and untaxed reserves exceeded SEK 24 billion. At year-end the Group's risk capital amounted to SEK 31.7 billion and the total capital ratio was 10.7 per cent. S-E-Banken, with approximately 11,700 employees, is represented in some 25 countries round the world – via subsidiaries, branches and representative offices.

31

Alliance Capital

Alliance Capital Management L.P. is a registered investment adviser, providing investment management services to institutions - pension funds, endowments, and foreign financial institutions - and to individual investors through a broad line of mutual funds and cash management accounts. Client assets under management exceed $62 billion.

32



Industrivärden

Industrivärden is an industrial holding company with a portfolio of listed stocks worth around SEK 7,000m. Following the acquisitions of Investment AB Bahco, the industrial and trading operations (PLM, Bahco/Dacke and Indutrade) will have a turnover of SEK 11,000M. The operations in Bahco and Dacke will become Inductus with a turnover of SEK 3,500M. The real estate operations (Fundament) owns properties valued at SEK 1,300M. The number of employees in the Group is around 12,000.

The Financial Times Annual Report Service is appearing on 23, 24, 25, 26 June 1992.

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COMPANY NEWS: UK

Costain seeks cash in Australia

By Andrew Taylor, Construction Correspondent

COSTAIN, the troubled British construction, mining and property group, is seeking to raise more cash by selling a stake in its profitable Australian coal mining subsidiary.

The group failed to pay a final dividend after making a pre-tax loss last year of £69.2m. It sold its British investment property portfolio in December for £101.3m in a move to reduce its large borrowings.

Mr Peter Costain, chief executive, yesterday confirmed that the group planned to seek a listing for its Australian coal mining business and sell part of its shareholding in it later this year.

Bain Capital Markets, the Australian investment bank, has agreed to underwrite the issue on the Australian Stock Exchange.

The group said yesterday that it was seeking to take advantage of the growth in the value of its Australian business and the current strength of local share prices.

Last year Costain reduced its net debt by £143m to £168m cutting gearing from more than 100 per cent to 53 per cent. The figures, however, excluded £52m of off-balance sheet debt on the proposed Spitalfields office development in east London and £38m of convertible preference shares.

Its Australian coal mining subsidiary has been estimated to be worth £130m based on current reserves and coal prices.

Costain's US coal mining operations, where it is also thought to have considered selling a stake, are twice as large in terms of annual output but were less profitable than the Australian business last year.

Lower profits in the US were due to a combination of recession, a mild winter and uncertainty over the US Clean Air Act.

The Australian coal mining subsidiary has the contract to extract coal from Ravensworth open cast mine in the Hunter Valley in New South Wales and has a 28.4 per cent stake in a consortium which owns the nearby Warkworth mine. The two mines last year produced about 7m tonnes of coal, 9 per cent more than in 1990, generating an operating profit thought to be between £15m and £20m.

Overall, group coal mining profits – after taking into account the reductions in the US – declined by 24 per cent from £44.1m to £33.6m.

Costain, in addition to its Ravensworth and Warkworth interests, has a 50 per cent stake in a joint venture which has won contracts at nearby Narama to extract coal and supply 2m tonnes a year for 20 years to the New South Wales Electricity Commission.

Costain also owns a 25 per cent stake in a consortium which has won the right to prospect coal reserves at Bengalla, also in New South Wales, which the group estimates could produce 6m tonnes a year by the late 1990s.

Trevor Humphries

Peter Costain: seeks Australian listing for coal offshoot

ML Holdings parts with its chief executive

By Daniel Green

ML HOLDINGS, the aerospace and electronic components group, yesterday parted company with its chief executive just a day before publication of the group's preliminary results.

Today's figures will show that the company fell into loss for the year to March 1992.

ML's directors decided unanimously at yesterday's board meeting that Mr Peter Pollock would cease to be chief executive. He was not available for comment.

Mr Timothy Sallitt, chairman, became acting chief executive and said that a replacement for Mr Pollock had been found from an engineering company. He would take up his post "within weeks rather than months".

Mr Sallitt said that although the timing of the announcement of Mr Pollock's departure could have been better, the decision was not directly related to the results.

The change in chief executive was prompted more by "a question of management style than bottom line performance", he said.

ML Holdings shares fell 7p to 31p.

The change comes after a particularly difficult period for the company. One of its biggest contracts, for the JP233 airfield denial bomb which was used in the Gulf war, came to an end last year.

The JP233 accounted for £34m of the group's £64.8m turnover in 1987, but only £1m last year.

It was one of the factors that a year ago led to a 41 per cent decline in profits to £6.3m. Mr Pollock's salary was cut by 38 per cent to £149,000.

Mr Sallitt became chairman in March with the remit to turn the company round by strengthening its non-military businesses. He decided that a new chief executive was needed. His chosen candidate accepted the offer of the post yesterday.

Mr Sallitt became a non-executive director of ML last year, having left the board of Hawker Siddeley in 1990.

Vaux acquires 124 pubs

VAUX GROUP, the Sunderland-based brewer which has interests in hotels and nursing homes, has acquired 124 pubs from Inntrepreneur Estates, for £16m.

In early April Vaux bought 85 pubs from Inntrepreneur and 28 from Whitbread in a £13.5m deal. At that time Vaux said it intended to increase its pub estate to 1,000 properties.

The current acquisition brings the number of pubs now owned by Vaux to 988 and strengthens its position in the north west of England and Yorkshire.

Some 84 of the pubs will be operated from Vaux Breweries in Sunderland, the brewing subsidiary of the group, and 40 from SH Ward in Sheffield.

The vendor, Inntrepreneur, is a joint venture between Grand Metropolitan and Foster's Brewing.

Whitecroft falls 27% to £4.49m

By Ian Hamilton Fazey, Northern Correspondent

WHITECROFT, the Cheshire-based group which last week announced a sharp cut in dividend to dampen expectations ahead of its results, yesterday reported a 27 per cent drop in pre-tax profits before exceptional items to £4.49m for the year to end-March, with operating profits halved.

The group is undergoing a painful reconstruction. It is still disengaging from property but has largely completed reorganisation of its lighting, building products, medical cotton fibre and textiles businesses, with cost savings now likely.

The final dividend wascut to 0.7p, making 4p for the year compared with 10p in 1990-91. Earnings were 5.65p (4.26p)

Turnover was down 10 per cent at £129.19m (£143.13m). Operating profit was £4.72m. After interest of £228,000, pre-tax profits were £4.49m. Accounts for the previous year were restated to reflect different treatment of reorganisation costs. Operating profits in fiscal 1991 were £9.45m, the exceptional charge £3.3m and interest £3.33m giving pre-tax profits of £2.81m.

Whitecroft took an extraordinary charge of £6.27m (£5.05m) in the latest period, relating mainly to its withdrawal from property development. The retained loss for the year was £5.69m (loss of £6.98m a year earlier).

The group sold its housebuilding division in January, reducing borrowings by £6m but year-end gearing was still 78 per cent on shareholders' funds of £45m.

Ongoing sales of houses it retained is expected to bring in £4m, with another £800,000 of deferred consideration to come.

Mr Peter Goold chairman, said all construction was completed and several lettings had now been achieved.

The biggest single development is a complex of shops and offices in Sheffield.

BUPA claims 85% of Murrayfield

THE BRITISH United Provident Association (BUPA) has reached agreement to acquire the 71.4 per cent of Murrayfield, a hospital in Edinburgh, which it does not already own.

The offer, 394p in cash for each Murrayfield share, values the 79-bed purpose-built hospital at £13.8m and the balance of the shares at £11m.

The shares are being acquired by BUPA Investments, an offshoot of BUPA.

Irrevocable undertakings to accept the offer have been received in respect of 56.2 per cent of Murrayfield's equity taking BUPA's interest to 84.7 per cent in aggregate.

The board of Murrayfield and its financial advisers, Noble Grossart, consider the terms to be "fair and reasonable." BUPA said the offer was final and would not be increased.

Birkdale returns to dividend list

By Gary Mead, Marketing Correspondent

THE BIRKDALE Group, holding company of a range of marketing, advertising and public relations agencies, turned in pre-tax profits of £202,000 for the year ended March 31 1992, following the previous year's loss of £1.53m.

Group turnover was £21.2m (£25.8m), with operating profits of £221,000, against a 1991 operating loss of £645,000.

Mr Neil McClure, chief executive, announced that the group would resume dividend payments, at a nominal 0.2p, after three years of no dividends. Earnings per share were 1.5p (losses of 15.6p).

Birkdale, under its former name of Brunning, first went public in 1961. Mr Simeon Galpert, finance director, said that in its 30 years the group had never made pre-tax profits greater than £1m, but that there were strong chances of soon reversing that record.

Mr McClure took over as chief executive in October 1989, when Birkdale was burdened with bank debts of £7m. While Birkdale now has a £500,000 overdraft facility with National Westminster bank, the group ended its financial year with net cash reserves of £354,000, he said.

Since taking over Mr McClure has reduced staff numbers from 700 to 300. All Birkdale employees are now on one-year contracts and managers have profit share incentives.

Operating margins are currently about 10 per cent at group level. Revenues per employee stand at about £30,000, far beneath comparable sector figures, but Mr McClure anticipates that the current year will see considerable improvements to those figures. Reductions in the cost base "are a never-ending process as far as we are concerned," he added.

A key executive role will be provided for Mr Richard Humphreys, who joined Birkdale in May after being forced from his post as chief executive of Saatchi and Saatchi Worldwide in February.

NEWS DIGEST

Sterling Industries falls to £3.5m

IN LINE with comments issued in last year's statement, pre-tax profits at Sterling Industries, the engineering group, fell from £4.07m to £3.5m in the year to March 31.

The downturn was blamed on the general economic climate, with the hydraulics division suffering the brunt of the slow-down and incurring an operating loss of £29,000 against a £755,000 profit last time. Combustion engineering was less affected, with a £1.83m (£2.43m) operating figure.

Group turnover was down at £34.5m (£39.5m). Earnings came out at 7.45p (9.02p) and an unchanged final of 4.1p maintains the total at 5.6p.

Net assets rise at I&S Optimum

Net asset value per share of I&S Optimum Income Trust stood at 95.86p at the May 31 year end, a 5 per cent advance on the 91.38p at the corresponding date last year.

Net revenue for the year fell marginally from £2.2m to £2.1m. Earnings slipped from 7.54p to 7.25p per share as the trust's increased exposure to equity investments resulted in a fall in interest received from fixed interest securities and funds held on deposits.

The final quarter's dividend is 1.85p making a total for the year of 7.25p (7p).

Amber Industrial improves to £2.55m

Amber Industrial Holdings, the speciality chemicals company 75 per cent owned by Caledonia Investments, lifted pre-tax profits from £1.61m to £2.55m in the year to March 31.

However the result last time was after a £785,000 exceptional debit.

Mr Peter Buckley, chairman, said the year reflected the first full period of its Ambersil subsidiary's occupation of the new factory at Bridgwater. Higher overheads at the premises, difficult trading conditions in the UK and the failure to find a buyer for the vacated Basingstoke premises had all held back profitability, he said. However, he was confident that in time the benefits of the move would show through.

Turnover improved to £16.4m (£14.9m). Although cash balances had continued to grow lower interest rates had held back net interest received to £490,000 (£619,000).

Mr Buckley added that the company continued to seek opportunities to expand the business.

An increased final dividend of 12.5p (12p) is recommended for a 17p (16.5p) total, payable from earnings of 34p (23p) per share.

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Shoprite advances strongly to £1.04m

A strong advance in half-year pre-tax profits, from £126,000 to £1.04m, was reported by Shoprite Group, the Isle of Man-based grocery and vehicle retailer which has interests in property. The group is also proposing to pay a maiden interim dividend of 2p.

The result for the six months to May 3 was achieved on turnover more than doubled from £18m to £37.7m. The profits figure is only slightly short of the outcome for the 1990-1991 year.

Mr Deryck Nicholson, chairman and managing director, said the Scottish expansion had been the main contributor to the improved results – Shoprite opened seven new stores there bringing the total to 18 at the period end.

This growth was expected to continue as sufficient further sites had been identified to meet the company's store opening plan for the next 18 months, Mr Nicholson added.

Within this programme up to 17 stores could be opened in the second half.

The interest charge fell slightly to £742,000 (£759,000). Net gearing stood at 51 per cent at the period end. Earnings surged to 6.3p a share against 1p last time.

Hambros Inv net asset value lower

Hambros Investment Trust, a subsidiary of Hambros, had a net asset value of 46.78p at March 31 compared with 48.8p a year earlier.

Net revenue for the 12 months fell from £1.35m to £49,065 after a tax credit of £25,286 (£325,841 charge). Earnings per share dropped to 0.01p (2.26p).

CMW Group warns of downturn

CMW Group, the USM-quoted architect and planning consultant, has warned that profits for the first half of the current year would be lower than expected.

Delays on contracts and reduced fees at Covell Matthews Wheatley Architects have affected both revenue and profit in the second quarter, the company said.

Action has been taken to reduce overheads, the costs of which will be provided for in the interim results to be announced shortly.

These measures and new commissions will restore margins in the second half, but year-end profits will still be below expectations, the directors added.

Conrad Black's Hollinger group will retain majority holding

Telegraph flotation at 325p

By Maggie Urry

THE PRICE for the flotation of the Telegraph was set yesterday at 325p, giving the group a market value of £435.5m. Mr Conrad Black's Hollinger group is reducing its stake in the newspaper publisher from 87 per cent to 68 per cent through the sale of 26m shares, raising £84.5m before expenses.

The company is not raising any new money. Hollinger, the Canadian-based group, plans to retain a majority holding in the Telegraph.

The price is lower than earlier hopes suggested, reflecting some weakness in the stock market in recent weeks.

Mr Russell Edey, of NM Rothschild, the merchant bank advising on the flotation, said, "In the jolly days after the election we would have got a few pennies more." He said he did not think either the cancellation of the GPA flotation or concern about Mirror Group Newspapers had directly affected the issue.

The price puts the group on an historic fully taxed p/e of 16, and a prospective gross yield of 4.1 per cent on the 10p net dividend the Telegraph is forecasting for the 1992 financial year.

Of the 26m shares being sold, 13m are available to the public with up to 10 per cent of those earmarked for Telegraph employees. The other 13m shares have been placed, 12m in the UK and 1m in Canada.

Applications close on July 1 and the basis of allocation is expected to be announced by July 2. Dealings are due to start on July 8.

● COMMENT

The great imponderable in the Telegraph flotation is how many of its readers will apply for shares. The assumption is that their social class and propensity to own shares will combine with a loyalty to the brand to persuade them to apply in droves. On that basis the issue should go well, and there should be a premium in the after-market. But whether the Telegraph constitutes a sound long-term investment at this price is quite another matter. There are no directly comparablestocks, but a prospective p/e of around 15½ on forecasts of £42m pre-tax (£40.5m in 1991) is a sizeable premium to the market, while the forecast yield is at a discount. That looks a bit steep for a mature business with a still declining customer base. Add the likelihood that the company will be the vehicle for the personal ambitions of its majority owner and an even more cautious approach is justified.

See Observer

Contractors consider action over Canary Wharf

By Andrew Taylor, Construction Correspondent

A GROUP of about a dozen contractors is considering pursuing legal action against Olympia & York in a bid to free money owed for building work on the failed £1.5bn Canary Wharf development in London's docklands.

The project was placed into administration at the end of last month after Olympia & York, the developers, ran into financial trouble.

Administration is designed to prevent creditors, such as contractors, from pursuing claims while attempts are made to reorganise the business.

Partners of Ernst & Young, the accountancy firm, who were appointed administrators to Canary Wharf at the end of May are today due to reveal to bankers in Toronto their initial findings and outline a strategy for dealing with the troubled project.

About £60m is estimated to be owed to construction companies which have worked on the project.

The group of contractors, in a bid to recoup some of this money, is considering starting a class action against Olympia & York. This would allow them to sue the developers direct and avoid becoming ensnared by the administration procedure.

The companies – which are thought to be owed more than £10m – have been taking legal advice from Davies Arnold Cooper, a large firm of City solicitors.

The solicitors said last night that a decision on whether to proceed with legal action could depend upon what Canary Wharf administrators might announce today.

Mr Nigel Montgomery, partner in the firm's construction insolvency unit, said: "An administration places a ring fence around a business which keeps creditors out.

"This action would enable contractors to claim that assets on the other side of this fence belong to them and therefore should be handed over and not used to the benefit of other creditors. A class action enables companies which might not be able afford it on their own to group together and share costs."

The action concerns contractors' plant and equipment which remains on site as well as money owed to them which has been retained by the developers against the possibility of defects arising after completion of the building.

Developers can retain up to 2½ per cent of the cost of the works for up to 12 months after legal completion of construction.

Contractors will argue that retention money and plant legally belongs to them and therefore cannot be held back by Olympia & York or the administrators.

Price rises boost Wessex Water 16% to £76.9m

By Angus Foster

WESSEX Water, the supplier of water and sewerage services from Bristol to Bournemouth, yesterday continued the flow of recent strong results from the privatised water industry.

For the 12 months to end-March profits at the pre-tax level rose to £76.9m, a 16 per cent improvement over the previous year's £66m. The increase mainly refelected average price increases of 14.5 per cent.

Wessex Waste Management, the 49.9 per cent-owned joint venture set up last year with Waste Management of the US, made a first contribution of £900,000. Mr Nicholas Hood, chairman of Wessex Water, said the venture's profits were "on track and it's going well."

Group turnover increased by 14 per cent to £190.8m. However, operating costs rose by 16.8 per cent due to inflation and one-off charges.

These included £1.8m of extra severance provisions and £1.3m of bad debt provisions – a 50 per cent increase. Wessex has one of the lowest disconnection rates for non-payment of bills.

Interest receivable, earned on money raised through the sale of a 14.99 per cent stake to Waste Management of the US, was unchanged at £8.5m.

Capital investment on improving water and sewerage quality increased to £138m (£97m), although the depreciation and infrastructure renewal charge was stable at £29.4m (£29m).

By the year-end the company's net cash position had declined from £94m to £15m. Although it was likely to become slightly geared in the current year it would return to net cash by the year end.

Fully diluted earnings rose to 57.9p (50.3p) and a recommended final dividend of 12.9p (11.6p) makes a 19.5p (17.7p) total, an increase of 10.2 per cent. Dividend cover increased slightly to 3.4 (3.3) times.

Mr Hood said Wessex was "fully supportive" of recent moves by the National Rivers Authority to reduce abstraction from low flowing rivers.

Wessex had cut in half its abstraction programme for the River Piddle in Dorset, he said.

See Lex

£13.5m purchase for Plysu

By Richard Gourlay

PLYSU, the plastic bottle and houseware manufacturer based in Milton Keynes, has announced a European expansion through the £13.5m purchase of a Benelux-based blow moulded plastics container company.

The company is paying for SEP Group through a vendor placing of 3.12m shares at 276.5p, which raised £8.6m, and about £2.5m in cash. The vendors will also keep about £2.3m of Plysu shares for at least one year.

Mr Richard Gordon, chief executive, said the acquisition would provide a platform for further growth in Europe, in particular in France where the company has been seeking to expand.

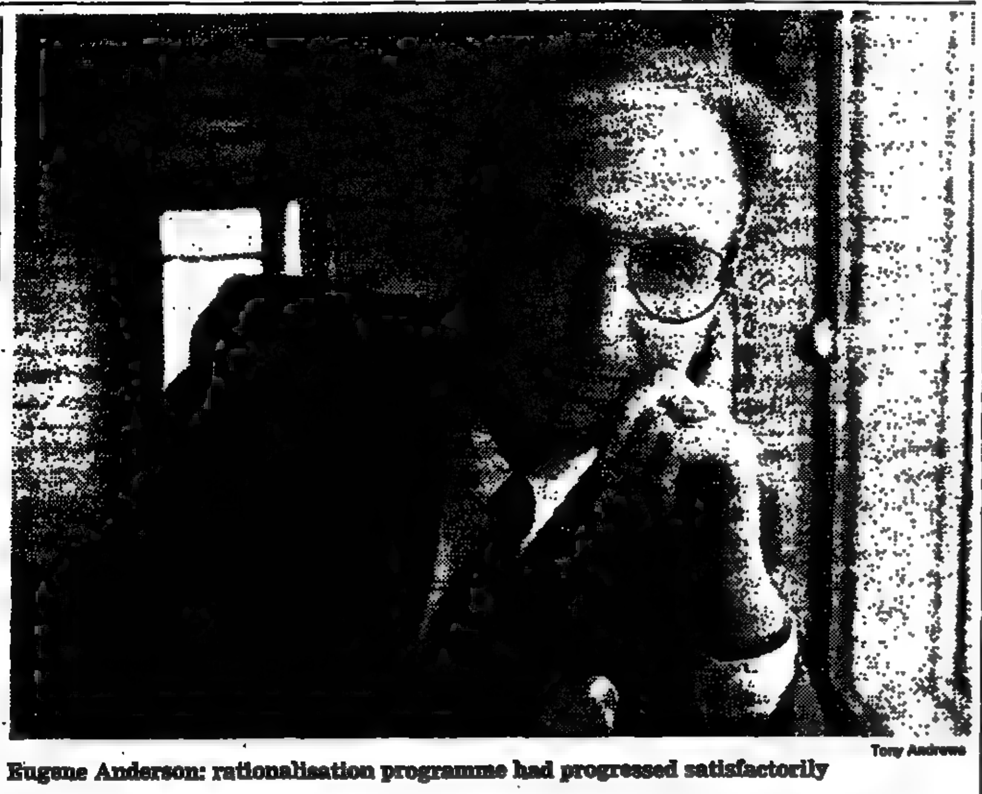
The deal will be earnings enhancing in the year to March 1993 and leaves the group with a pro-forma balance sheet that is virtually ungeared.

The acquisition follows two years in which Plysu has grown rapidly after capturing a large slice of a relatively new UK market for resealable plastic milk bottles for the supermarket and dairy trade.

SEP had sales of £23.6m in the year to December 31, and made pre-tax profits of £1.3m, down from £2.1m after being hit by fluctuations in raw material prices as a result of the Gulf war. It had net assets of £9.1m at the last balance sheet date.

Plysu believes its existing smaller blow moulding operation in the Netherlands will fit well with SEP's operations and markets.

Robert Fleming, the merchant bank, underwrote the share placing with institutions yesterday at a 3 per cent discount to the market price of 285p at which the shares closed.



Tony Andrews

Eugene Anderson: rationalisation programme had progressed satisfactorily

Ferranti loss reduced to £40m

By Angus Foster

FERRANTI International's disposals and cost cutting helped generate a small cash inflow of £20.2m in the year to March 31, compared with an outflow of £161.6m in the previous period.

Interest charges for the electronics group, which supplies advanced systems for business, defence and the community, fell from £14.9m to £13.5m and exceptional charges, due to restructuring, were also lower at £13.9m (£65.4m).

The pre-tax loss was therefore contained at £39.6m (£98.1m) although turnover fell to £362.6m (£458m). This followed an interim loss of £26.8m on sales of £212.4m. There was a loss per share of 4p (11.5p) and no dividend is proposed.

Mr Eugene Anderson, the chairman and chief executive, said the rationalisation programme had progressed satisfactorily, and by the year end the workforce had been reduced by 41 per cent to 5,374.

The £41.1m recovered in relation to the International Signal and Control fraud, which can be paid to special shareholders, will not be distributed until Ferranti restores distributable reserves.

The year's losses required a £44.1m transfer from reserves, and shareholders' funds fell to £71.9m (£112.5m).

● COMMENT

Judging by yesterday's 17 per cent rise in the share price to 10¼p, Ferranti has just been promoted from write-off to recovery play. Although £44.1m of attributable losses are hardly inspiring, the City seemed prepared to breathe a sigh of relief at what might have been. But while the company's survival now seems more secure, it remains reliant on an unfashionable defence sector for more than half its earnings. And the main problem for investors is how to value a company which has been forced to sell its family silver. Nevertheless, the company is forecast to break even this year, perhaps rising to £10m profits in 1994. On the basis of turnover and longer-term earnings, the shares can go higher. But on the basis of assets, they look about right.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- First Leisure, Hoskyns, Lee (A), Southern Business.

Finals- AAH, BTP, Bristol Water, Brown Shipley, Caledonia Inv., Courts, ERF, Feedback, Hogg Robinson, JLI, London Electricity, ML, Wagon Ind.

FUTURE DATES

Interims-

Crystalate Electronic	Jun. 29
Kershaw (A)	Jul. 9

Finals-

Alphameric	Jun. 25
Assoc. Brit. Eng.	Jul. 7
Bimec	Jul. 7
Ellis & Everard	Jul. 13
Faraguh	Jul. 2
Markheath	Jul. 2
Reject Shop	Jul. 1
United Inds.	Jun. 29

Capital restructure for NSM

By Roland Rudd

NSM, the heavily-indebted international coal mining group, yesterday announced plans for a capital reorganisation.

It also reported a £5.7m loss before tax for the year to end March compared with previous profits of £3.7m.

The loss was inflated by a £3.4m exceptional item relating to the rescission of a land sale contract.

Preference and ordinary dividends are being passed – in the previous financial year ordinary dividends totalled 0.5p. Losses per share of 0.44p compared with earnings of 0.84p.

A proposed equity restructuring, which will give preference shareholders 80 per cent of the new share capital, will be put to an extraordinary general meeting.

Group borrowings fell from £95m to £87m against shareholders' funds of £50m.

The group said it was planning to dispose of further non-core businesses worth between £15m to £20m. Last year it sold Bison, its building materials arm, for £30.7m.

Extraordinary items of £89.2m related mainly to goodwill that arose on the purchase of Bison and its subsidiaries. The loss does not affect net assets because the goodwill was originally written-off at the time of purchase.

The group's annual interest charge increased to £11.2m (£9m) since the Bison sale was only completed in December.

Mr John Jermine, chief executive, said: "We are now a coal mining business in the UK and the US. There will not be any more diversification into other areas."

The group is hoping to benefit from the government's planned privatisation of British Coal. Mr Jermine said he would be asking ministers to end the £5 a ton royalty payment to BC.

Operating profits fell from £12.8m to £9m on turnover of £147.3m (£185.9m).

The UK mining division, which is one of the country's largest opencast coal contractors, generated revenues of £63.5m (£54.5m). The US coal division sold 3m tons of coal compared to 2.8m tons.

Cupid to raise £2.7m in rights

CUPID, the USM-quoted wedding gown designer, is planning to raise a net £2.68m via a 1-for-2 rights issue at 82p.

The money will be used to expand the company's nursery care division, fund working capital requirements and repay borrowings.

Largely as a result of the acquisition of the Youngs formal wear business for £2.2m in cash, the group's borrowings have risen to £4.2m with gearing at 93 per cent.

The issue will help reduce borrowings to a more "prudent" level and enable the company to expand.

The combination of the Pronuptia bridal wear business and Youngs retail chain has already given Cupid a network of 92 shops focusing on the wedding business.

The emphasis will now be on expanding the Quilty nursery products side.

The issue is underwritten by BZW and brokers are Zoete & Bevan and Charlton Seal.

Cupid's brokers have undertaken to place the existing shareholding of Société Générale Merchant Bank – 652,741 ordinary, representing 9.1 per cent of the current issued share capital – with institutional and other investors at 85p per share provided they agreed to take up the rights attaching to the shares placed with them.

Cupid's shares closed at 90p, down 5p on the day.

Wassall takes stake in Fenner

FENNER, the industrial group, yesterday disclosed that Wassall, the mini-conglomerate run by former Hanson executives, had acquired a 1.6 per cent stake. Fenner's shares yesterday rose 4p to close at 83p.

Mr Christopher Miller, chairman of Wassall, said: "The stake has been taken for investment purposes." He declined to comment further.

Fenner is to close some of its power transmission division manufacturing units in Hull with the loss of about 200 jobs.

The company said the move was in line with its strategy of reducing its cost base to enhance its competitive position in the UK power transmission market. Some 680 people are currently employed at Fenner's Hull power transmission division.

Few takers for Europa rights issue

EUROPA MINERALS, the UK mining and finance house, has received acceptances for only 15.9 per cent of the 85.1m new ordinary shares on offer in its 9-for-4 rights issue.

The 71.5m shares not subscribed for will be taken up by the sub-underwriters at the issue price of 5p each. Existing Europa shareholders acting as sub-underwriters will take up some 30 per cent of the offer.

The £3.97m rights issue was launched at the end of May after a boardroom upheaval which led to Europa's three non-executive directors being replaced by two executive directors of Austmin, a small Australian mining company which is Europa's biggest shareholder. On taking up its rights Austmin's stake in Europa was expected to increase from 14.5 per cent to between 18 and 20 per cent.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Airtours	int	0.55	July 29	0.5*	-	5.75
Amber Industrial	fin	12.5	Aug 10	12	17	16.5
Birkdale	fin	0.2	Oct 30	nil	0.2	nil
Halma	fin	1.332†	Aug 14	1.065*	2.195	1.755
I&S Optimum	fin	1.85	Aug 7	1.8	7.25	7
Shoprite	int	2	Oct 2	-	-	5.2
Sterling Inds	fin	4.1	Aug 14	4.1	5.8	5.8
Wessex Water	fin	12.9	Oct 1	11.6	19.5	17.7
Whitecroft	fin	0.7†	Aug 10	5.4	4	10

Dividends shown pence per share net except where otherwise stated. †On increased capital. *Adjusted for scrip issue. §USM stock.

Halma moves ahead to £15.5m

By Peter Pearse

AFTER LAST year's blip in its almost unblemished 19-year growth record, Halma, the safety and environmental control group, returned to its upward path in the year to March 28 with pre-tax profits 17 per cent ahead at £15.5m.

The rise from £13.3m was struck on turnover up 15 per cent from £81.9m to £94.5m. Furthermore the company was proud to point out that a survey on the size and consistency of dividend increases put Halma at the top of the list with 13 years of annual increases of at least 20 per cent.

This 14th time the total dividend is lifted 25 per cent to 2.195p (1.755p) with a recommended final dividend of 1.332p (1.065p).

Mr David Barber, chairman and managing director, explained that the previous year's 6 per cent slip in profits from £14.1m – due mainly to recession in the UK and the US – had in fact helped Halma this time.

He said that when profits fell at a "self-propelled" company like Halma, this ensured and encouraged management action which in turn led to growth in the following period.

The spread of businesses helped protect the company which could target acquisition possibilities within its area of management expertise and then move into those markets.

Expansion by acquisition was the other factor behind the resumption of Halma's growth.

All had gone well, said Mr Barber. It bought: Tradinco, the Dutch pressure calibration company, in April 1991; Palmer Environmental Services and Surveys, which detects water leaks in underground pipes, in November; Detection Instruments, the gas detection instruments company now integrated into Crowcon Detection Instruments, in December; and Perma Pure, which removes water vapour from gases, this January.

The total cash expenditure on these was £2.96m, down from last time's acquisition cash bill of £4.5m.

Halma was now more focused on Europe and would be looking to expand further there, Mr Barber said. The European operations were making almost as much profit as the well-established US side.

Group sales in the UK, he said, were only 5 per cent up, against a 42 per cent increase on the Continent. Overall, direct exports grew 32 per cent to £23.7m and overseas sales accounted for 47 per cent of total group sales, against 42 per cent a year ago.

On top of that, Halma's "relatively green" areas of business – the water and air monitoring and treatment, and safety interlocking sides which accounted for about 40 per cent of group turnover – had been Halma's "most buoyant" areas.

Earnings worked through at 7.71p (6.81p) per share.

COMMODITIES AND AGRICULTURE

Cocoa futures prices hit fresh 16½-year lows

By David Blackwell

LONDON COCOA prices fell to fresh 16½-year lows yesterday as the inexorable decline continued. Some traders now see the second position contract falling to £500 a tonne before long.

The September contract touched a low of £520 a tonne in early trading before recovering to close at £523 a tonne, down £7 on the day.

Two main factors are keeping prices permanently under pressure, according to Mr Tony Chadwick of Prudential Bache. First, West African crops – particularly in the Ivory Coast, the biggest producer – have been better than had been expected, and second, demand from the former Soviet Union has fallen dramatically.

The combination of better production performances and lower consumption than expected has forced analysts to revise sharply downwards their original projections for the first deficit in the world cocoa supply-demand balance for eight years. The International Cocoa Organisation has cut its forecast to 115,000 tonnes from an earlier 140,000 tonnes and Gill & Duffus, the London trader owned by E.D. & F.Man, last month reduced its estimate to 107,000 tonnes from 177,000 tonnes. The Economist Intelligence Unit is predicting a deficit of only 83,000 tonnes.

Mr Lawrence Eagles, analyst with GNI, the London futures broker, said yesterday's decline followed light trade selling in a market "devoid of any speculative interest". The only factor on the horizon that could provide any bullish news was the talks in Geneva from July 6 on a new international cocoa agreement. "This has been largely ignored and there is a possibility of a surprise," he said.

Cocoa producing countries last week issued a statement, after a meeting in the Ivory Coast, urging consumers to join in working towards an agreement with price-supporting clauses by the end of the current cocoa year in September. "Producer countries feel it is vital to envisage interim provisions to face up to the grave crisis in the cocoa economy before a new accord takes effect."

The EIU in its latest World Commodity Forecasts predicts a "sluggish upturn" in prices next year to an average price of 60 cents a lb compared with an average of 51 cents this year. But it points out that the market has "a disconcerting habit of confounding the pundits. Every new low is seen as the bottom and yet prices go on falling".

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,725-1,750 (1,720-1,745).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.60 (2.40-2.80).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.45-0.50 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 24.75-25.75 (25.25-26.25).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 140-160 (same).

MOLYBDENUM: *European* free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.35-2.43 (2.30-2.43).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.50.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 55-64 (same).

VANADIUM: *European free* market, min. 98 per cent, $ a lb V_2O_5, cif, 2.08-2.15 (2.05-2.15).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.75 (same).

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+580	to 1,270,550
Copper	−1,825	to 281,925
Lead	+150	to 139,050
Nickel	+546	to 30,930
Zinc	+1,475	to [illegible]
Tin	−180	to 12,750

French farmers in unequal struggle for survival

William Dawkins reports on despairing attempts to turn back the tide of agricultural policy reform

FRANCE'S FARMERS are embarking on the final round of a fight for survival.

Thousands of them unsuccessfully attempted to blockade Paris yesterday, as France's great and good converged on Louis XIV's château in Versailles to vote on the country's European future.

Some of the angrier members of Coordination Rurale, a minority splinter group that wants the government to overturn last month's European Community farm policy reforms and raise farm prices, had promised a re-run of the French revolution. Yet the end result was tame, a sign of the diminishing power of the once mighty farm lobby.

It caused less disruption than the average bank holiday traffic jam. Instead of blocking access to the capital, the demonstrators chatted amiably with motorists and police, meekly allowing themselves to be rounded up by the latter.

The government had in any case forbidden them to hold up the traffic and given the police special powers to shift vehicles. Conscious that it would lose in any confrontation with the police, the CR had ordered its members to avoid violence. The CR represents only 7,000 out of France's 1m farmers and managed to set up a mere 15 road blocks, according to the interior ministry.

Even so, the Socialist government is worried by the wave of demonstrations by the CR and some members of the main unions, the right wing FNSEA and CNJA over the past fortnight. The protests have been worst in south-west France, dominated by the small farmers who are likely to be worst hit by the reforms, where vegetables have been dumped on the streets, tyres burned and traffic has been held up by tractors performing *"operations escargots"*.

For President Francois Mitterrand such a resurgence of anti-EC feeling is most unwelcome at time when he is trying to nurse volatile public opinion towards a firm "yes" vote in the autumn referendum on the Maastricht agreement.

Accordingly, the government has handled its farmers with kid gloves. Mr Pierre Bérégovoy, the prime minister, has promised tax benefits, debt assistance and other aid, to be unveiled by the end of July, and has discreetly shelved a series of farming conferences. The police have steered clear of confrontation.

A worried Mr Jacques Delors, president of the European Commission, has joined in, warning on French television that refusal to accept the reforms - steep price cuts over the next three years, with compensation in the form of direct income support – "would be a catastrophe for our farm system". The number of French farms could fall to 300,000, less than a third of the present level, if the reforms were not applied. "With the new system, we can keep 600,000 to 700,000," he said.

These latest demonstrations are different from the ones that have broken out across the French countryside in recent years, and contrasts with last autumn's peaceful and united demonstration by 200,000 farmers in the streets of Paris. Today, the farmers are more divided, less powerful and therefore more tetchy.

Only a year ago, they were united against the basic principle of the compensation for price cuts in the form of direct *income support*. The main farming unions, have always argued that they wanted incomes to depend on prices rather than aid, which they see simply as a way to bring about the slow death of thousands of small farms.

The government could not afford to be isolated in opposition to EC farm policy reform, and correctly guessed that FNSEA would have no option but to negotiate. The reforms are "a series of impostures", says Mr Raymond Lacombe, its president, but he pledges that the union will "try to use to the best the margin of manoeuvre available in this faulty accord". The CR, by contrast, will accept nothing less than the complete abandonment of the reforms – a stance that the main unions know is unrealistic.

Economically, farmers' power has been in steady decline for the past 20 years, as a result of the ageing of their population, the fall in prices and the growth in their debts. France had 4m farms in 1970, four times today's level, contributing 7 per cent of the country's gross domestic product, as against a mere 4 per cent in 1990. Of today's farms, 18 per cent grow cereals, 17 per cent are dairy and 20 per cent sheep or beef rearing.

In line with the intensification of farming across Europe, French farms have also got bigger, from an average of 19 hectares in 1970, to 30 hectares now, according to the agriculture ministry. This suggests that France should do well out of the EC reforms, which favour the most efficient farms. Yet the average hides big disparities.

Properties of 100 hectares or more account for a quarter of French farmland, such as the huge wheat farms of plains of the Brie and Beauce in the Paris basin. Not surprisingly, these are the farmers that tend to be most ready to negotiate on CAP reform. The small properties fall into two categories: market gardens, vineyards and orchards, which are profitable on small amounts of land; and the genuinely depressed farmers of the poorest rural areas.

This last category is the one that has born the brunt of a decline in earnings, down 2.2 per cent last year despite EC subsidies and a rise in debts, now on average FFr400,000 (£40,000) per farm. Debts of this magnitude constitute a real burden for a population whose incomes last year ranged from a low of FFr20,000 in Corsica to FFr300,000 in the Paris basin.

Against this background few young people are prepared to continue operating their parents' farms, the main reason for the ageing of France's farmers. Of the total, 60 per cent are more than 50 years old and 40 per cent of the total profess to having no successor.

Gold gets cold shoulder from new generation of investors

Analysts believe the metal has lost its appeal as a long term store of value, writes **Kenneth Gooding**

FT

GOLD HAD given up its role as a long term store of value and was now a commodity, suggested Mr David Pryde, managing director of J.P. Morgan, at the Financial Times World Gold Conference in Montreux yesterday. This would continue to shape general perceptions about the precious metal, its price potential and associated trading ranges and volatility.

He said oil and other energy-related products were now being used by investors wanting to hedge against inflation or to counter negative market developments. Whereas 10 years ago gold would have represented 80 to 100 per cent of a counterhedge against inflation, today it accounted for only 5 to 30 per cent.

However, the sums of money under management today were greater than ever before, so the quantities of gold required were still substantial. "Even as a commodity gold remains a large and diverse market with many significantly differentiated participants and this diversity of interest and need will continue to create opportunity as long as we recognise and accept changing realities," he said.

Reasons for gold's relative loss of appeal in the Middle East were supplied by Mr Marwan Shakarchi, president of MKS Finance. He said that some investors discovered during the Gulf war gold holdings proved useless for protecting wealth. One Saudi jeweller told him that it took weeks to get out his gold but only one day to take all his precious stones with him.

After the war Saudi people dishorded most of their gold and bought instead US dollar notes or travellers' cheques.

Mr Barclay Leib, a vice president of J. Aron-Goldman Sachs, said gold as an "asset class" was "clearly in disrepute". The price performance had been poor in the past 10 years mainly because investors had given it up in favour of the high interest rates offered by federal governments and financial institutions that "in essence are guaranteed by these governments against default".

Mr Ralf Kreikenbaum, a director of Commerzbank International SA Luxembourg, said that in Europe a new generation of investors had never learned to look on gold as a crisis and inflation-proof store of value and means of payment. "Those inheriting fortunes built up according to conservative principles are looking for higher yields for their portfolios. They are also more prepared to run risks," he pointed out.

When heirs to a family inheritance opened up the safe deposit box and saw the pile of gold "their first reaction is to ask: What shall we invest in once we have got rid of the gold?"

Mr Richard Scott-Ram, chief economist and strategist for the World Gold Council, said that small investors in the US were bearish about gold's price prospects so demand for gold coins and investment in gold-oriented mutual funds was low.

Investment by US institutions in gold bullion was probably non-existent last year. However, some US institutions had sizeable investments in gold company shares and "financial claims" on gold (such as purchases of call options on gold) had picked up considerably in recent weeks. This pick up in demand for derivatives should feed back into increased demand for physical gold.

In Japan investors and speculators disappointed by the gold price performance were "fading from the market," said Mr Kentaro Ojima, general manager of Sumitomo Corporation's precious metals dealing department. However, a new type of relatively young investor was emerging in Japan who was not as rich as the traditional investor but was supporting the growth of gold accumulation plans. These involve a regular monthly payment going to buy gold at the present market price.

About 300,000 people bought 30 tonnes of gold – about half of Japan's total investment demand for the metal – last year. Mr Ojima suggested that in five years this might grow to 1m people buying an annual 100 tonnes.

FT

Most of the speakers pointed out that China held the key to future gold demand. Mr Robert Sitt, managing director of Mase Westpac Hong Kong, said that the Chinese government projected GNP growth of 8 per cent annually and on a compound basis, gold consumption in China could double to reach 800 tonnes by the year 2000. "This would be a conservative estimate if we take into account the high growth rate of consumption of 448 per cent recorded in Taiwan in the last decade," he pointed out.

Although gold bar hoarding was weaker in the South-east Asian markets outside Japan (sophisticated investors were put off by the negative return on the precious metal, he said) gold jewellery demand remained strong. The region, which took about 120 tonnes of gold in 1986, could therefore this year absorb more than 800 tonnes – a record.

"With the potential growth of offtake, particularly in China, the entire western world mine production could easily be absorbed," Mr Sitt pointed out.

Mr Tim Green, chief consultant at Gold Fields Minerals Services, said that future gold jewellery demand "depends considerably on new mega-markets like China". At present the Malaysian jewellery industry simply could not cope with demands for chuk kam jewellery for China.

Demand for gold jewellery elsewhere in the world remained patchy, said Mr Green, but Chinese purchases had helped to push the total last year to a record 2,250 tonnes. Pointing out that this was more than all the newly mined gold last year, Mr Green added: "Jewellery is not just the cornerstone of the gold market it is now virtually the whole building".

Fortunately for the gold producers jewellery demand was spread over a wide number of markets, unlike, for example, diamonds which relied on two or three key markets. "To coin a phrase, diamonds are forever but carat gold jewellery is for everywhere," said Mr Green.

There was a confusing message from the conference about the prospects for the gold price. Mr Shakarchi suggested that Middle Eastern investors were holding back from buying gold because "they do not view present levels as the bottom and are standing aside awaiting lower prices". He added: "I believe that in the short term the gold price will stay stable to a bit lower and for the medium term, barring any other major incident, we shall gradually move even lower".

Ms Rhona O'Connell, analyst at Williams de Broe, said, however, that the market should overcome its fear that higher prices would generate more sales by gold producers and test $350 a troy ounce and possibly $365 over the next few months.

She pointed out that gold retained its attraction as "a wholly anonymous form of legal tender and there is a high proportion of the world's population that prefers to hold gold rather than paper money". This philosophy formed part of the rationale behind central bank holdings "and is one of the reasons which puts some doubt behind the likelihood of a wholesale disposal of gold holdings from the official sector – any crisis of confidence in a country's currency means that gold reserves are vital as a perceived, if not actual, asset of last resort".

WORLD COMMODITIES PRICES

MARKET REPORT

THE LONDON Metal Exchange **ZINC** market's cash premium shrank again yesterday as the three months position built on Monday's rally and the cash price edged down further. Dealers said a comparatively small rise in LME warehouse stocks encouraged the three months position's $7 rise to $1,210.50 a tonne. That left the cash premium at $82 a tonne. Before last week's LME move to impose a descending ceiling on the daily cash premium a technical squeeze had widened the cash/three months premium to $189 a tonne. In the LME **TIN** market the recent sustained price rise, which had added $287.50 a tonne to the three months price in seven trading days, was halted. But buying support appeared as the $6,700 a tonne level was approached and the price closed off the low at $6,735.50 a tonne, down $32 on the day. A decline in warehouse stocks helped to steady the market, traders said. In the London bullion market **GOLD** resumed its recent uptrend with a $2.05 gain to $344.65 an ounce. Dealers attributed the rise to light professional activity encouraged by concern over the political situation in South Africa, the largest gold producing country.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$19.10-9.15z	+.425
Brent Blend (dated)	$21.25-1.35	+.375
Brent Blend (Aug)	$21.20-1.30	+.375
W.T.I (1 pm est)	[illegible]	+.475
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$237-239	+2
Gas Oil	$188-189	+2.5
Heavy Fuel Oil	$85-87	
Naphtha	$203-205	+4
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$344.65	+2.05
Silver (per troy oz)♣	405.0c	+1
Platinum (per troy oz)	$366.10	+2.3
Palladium (per troy oz)	$81.25	+0.5
Copper (US Producer)	108.64c	+0.1
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	16.60r	-0.06
Tin (New York)	314.50c	-1
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	110.24p	-0.40*
Sheep (live weight)†♠	80.07p	-2.56*
Pigs (live weight)†	88.45p	-5.10*
London daily sugar (raw)	$257.0t	+4
London daily sugar (white)	$297.0t	+2.5
Tate and Lyle export price	£262.50	+2
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£148.0	
Wheat (US Dark Northern)	Unq	
Rubber (Jul)♥	51.75p	-0.25
Rubber (Aug)♥	51.75p	-0.25
Rubber (KL RSS No 1 Jul)	222.5r	
Coconut oil (Philippines)§	$552.5w	-2.5
Palm Oil (Malaysian)§	$400.0y	-7.5
Copra (Philippines)§	$350.0y	
Soyabeans (US)	£143.0	-0.5
Cotton "A" index	65.45c	+1
Wooltops (64s Super)	[illegible]	-10

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-Jun/Jul y-July w-Jul/Aug z-Aug. . †Meat Commission average fatstockprices.* change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♠Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	244.00	242.00	245.00 241.00
Oct	221.00	220.00	221.80 219.40
Dec	212.00	212.00	209.00 209.00
Mar	211.60	212.00	210.60 210.40
May	207.00		209.60
Aug	203.00	203.00	205.60
White	**Close**	**Previous**	**High/Low**
Aug	290.00	290.00	291.00 287.00
Oct	270.00	272.00	272.50 268.10
Dec	268.90		270.00 267.50
Mar	272.90		272.00 271.00

Turnover: Raw 210 (47) lots of 50 tonnes. White 1614 (703)
Paris- White (FFr per tonne): Aug 1550.14 Oct 1444.73

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low
Aug	21.25	21.19	21.32 21.12
Sep	21.21	21.08	21.23 21.05
Oct	21.10	21.00	21.11 21.02
Nov	21.01	20.92	21.03 20.97
Dec	20.94	20.88	20.95 20.88
Jan	20.78	20.75	20.74
IPE Index	20.95	21.05	

Turnover 16792 (28815)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Jul	190.25	187.00	190.75 188.75
Aug	192.00	188.75	192.75 190.75
Sep	194.25	190.75	194.50 193.00
Oct	196.75	193.50	197.00 195.75
Nov	198.75	195.00	199.00 197.00
Dec	200.25	196.50	200.50 199.50

Turnover 10313 (10246)lots of 100 tonnes

COTTON
Liverpool-Spot and shipment sales for the week ending 19 June 1992 amounted to 100 tonnes against 125 tonnes in the previous week. Lack of enterprise persisted and dealings were exceedingly rare.

JUTE
June/July C and F Dundee: BTC US$395, BTD US$365. C and F Antwerp: BTC US$380, BWC US$360, BTD US$355, BWD US$335.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Jul	505	515	508 503
Sep	523	530	[illegible]
Dec	553	560	556 550
Mar	583	590	586 580
May	602	609	603 599
Jul	620	627	[illegible] 619
Sep	638	646	644 635
Dec	667	673	670 667
Mar	[illegible]	701	700 [illegible]

Turnover: 3814 (3298) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 22 682.39 (689.49) 10 day average for Jun 23 674.87 (674.31)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low
Jul	684	691	690 675
Sep	704	708	[illegible] 694
Nov	722	728	726 718
Jan	741	746	742 738
Mar	760	[illegible]	761 759
May	780	790	780 778
Jul	803	810	802 801

Turnover:5393 (3264) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jun 22: Comp. daily 47.26 (47.72) 15 day average 48.63 (48.80)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	91.6	92.2	92.0

Turnover 5 (107) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Aug	121.50	125.00	121.50

Turnover 18 (60)lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
Jul	1015	1021	1020 1015
Aug	1030	1035	1032 1030
Oct	1167	1170	1170 1167
Jan	1210	1207	1210
Apr	1240		1240
BFI	1138	1144	

Turnover 43 (220)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
Sep	110.80	110.80	110.85 110.80
Nov	113.70	113.65	113.75 113.70
Jan	117.10	117.10	117.15 117.10
Mar	120.15	120.15	120.15
May	123.15	123.15	123.15
Barley	**Close**	**Previous**	**High/Low**
Sep	107.65		107.65
May	119.15		119.15

Turnover: Wheat 134 (60) , Barley 45 (0).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	122.5	122.5	
Sep	104.5		104.00

Turnover:3 (4) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 25,798 lots	
Cash	1236-37	1236-7		1232-33		
3 months	1262-2.5	1261-1.5	1263/1261	1258-58.5	1263.5-64	186,222 lots
Copper, Grade A (£ per tonne)					Total daily turnover 19,050 lots	
Cash	1235.5-36.5	1234-5	1236	1234.5-35		
3 months	1257-57.5	1254.5-5	1258/1256	1256-6.5	1256-56.5	107,436 lots
Lead (£ per tonne)					Total daily turnover 2,695 lots	
Cash	290-91	288-9		290.5-91		
3 months	[illegible]	300-0.5	303/300	301.5-02	301.5-1.75	17,468 lots
Nickel ($ per tonne)					Total daily turnover 3,165 lots	
Cash	7095-105	7125-30		7100-01		
3 months	7175-78	7205-8	7185/7175	7180-81	7176-80	24,361 lots
Tin ($ per tonne)					Total daily turnover 1,597 lots	
Cash	6735-40	6770-4		6745-60		
3 months	6735-38	6785-70	6750/6705	6745-50	6735-40	9,951 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 17,097 lots	
Cash	1290-95	1292-4	1295	1294-95		
3 months	1210-11	1203-4	1212/1202	1211-12	1211-12	[illegible] lots

LME Closing £/$ rate: SPOT: 1.8635 3 months: 1.8368 6 months: 1.8139 9 months: 1.7929

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	344.40-344.70	
Opening	343.50-343.90	
Morning fix	344.10	184.277
Afternoon fix	343.80	184.118
Day's high	344.40-344.70	
Day's low	343.50-343.80	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.44	6 months	3.36
2 months	3.42	12 months	3.49
3 months	3.38		

Silver fix	p/troy oz	US cts equiv
Spot	217.40	405.55
3 months	222.70	409.30
6 months	228.30	413.85
12 months	238.20	424.05

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	343.75-344.75	184.00-184.50
Maple leaf	354.25-355.25	189.75-190.25
New Sovereign	84.00-85.00	45.00-46.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1200	43	68	3	8
1300	3	14	57	53
1400	3	3	157	139
Copper (Grade A)	**Calls**		**Puts**	
2150	162	161	3	3
2250	62	74	3	12
2350	3	20	39	58
Coffee	**Sep**		**Sep**	
650	83		9	
700	31		27	
750	14		60	
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
500	33	66	10	11
525	19	49	21	19
550	11	35	38	30
Brent Crude	**Aug**	**Sep**	**Aug**	**Sep**
2100	52		31	49
2150	32	60	31	
2200		30		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	344.5	343.7	346.0	344.2
Jul	344.9	344.1	0	0
Aug	346.0	345.2	346.6	345.2
Oct	[illegible]	347.0	348.3	347.6
Dec	349.8	349.0	350.5	349.1
Feb	352.1	351.2	352.2	351.4
Apr	354.4	353.4	353.9	353.6
Jun	356.8	355.8	0	0
Aug	359.4	[illegible]	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jun	[illegible]	[illegible]	0	0
Jul	360.3	360.1	362.4	359.5
Oct	[illegible]	368.8	371.0	367.0
Jan	367.4	367.3	369.0	367.5
Apr	367.4	367.3	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jun	403.0	403.5	0	0
Jul	403.3	403.8	405.5	402.5
Aug	405.1	405.6	0	0
Sep	408.5	408.9	409.0	406.0
Dec	411.1	411.5	415.5	410.0
Jan	412.6	413.2	0	0
Mar	416.1	416.5	417.0	418.0
May	419.5	420.0	0	0
Jul	423.1	423.5	424.5	424.0
Sep	427.2	427.6	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	104.75	104.30	105.00	104.30
Jul	104.80	104.40	105.15	104.40
Aug	105.10	104.60	104.90	104.80
Sep	105.40	104.95	105.75	104.95
Oct	105.35	104.85	104.85	104.85
Nov	105.25	104.75	104.80	104.80
Dec	105.15	104.65	105.35	104.70
Jan	104.80	104.30	104.75	104.75
Feb	104.45	103.95	104.40	104.40
Mar	104.15	103.65	104.05	103.80

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Aug	22.59	22.48	22.62	22.48
Sep	22.52	22.41	22.55	22.43
Oct	22.42	22.32	22.45	22.34
Nov	22.33	22.23	22.33	22.24
Dec	22.23	22.14	22.25	22.13
Jan	22.09	22.01	22.10	22.00
Feb	21.94	21.87	21.94	21.84
Mar	21.78	21.73	21.74	21.67
Apr	21.64	21.59	21.60	21.52
May	21.55	21.47	21.40	21.38

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jul	6211	6184	6215	6170
Aug	6247	6225	6260	6220
Sep	6353	6340	6355	6325
Oct	6445	6425	6445	6420
Nov	6530	6510	6540	6515
Dec	6603	6581	6615	6590
Jan	6613	6591	6625	6600
Feb	6493	6461	6490	6460
Mar	6253	6216	6260	6235
Apr	6033	6001	0	0

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	800	823	810	797
Sep	841	865	855	836
Dec	896	916	911	884
Mar	943	964	965	940
May	972	992	984	970
Jul	1000	1020	1011	1010
Sep	1030	1051	1045	1029
Dec	1071	1091	1082	1068
Mar	1111	1124	1113	1106

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	58.30	58.95	57.70	55.90
Sep	58.80	59.80	60.25	[illegible]
Dec	61.50	62.60	63.00	61.00
Mar	64.20	65.50	65.75	63.90
May	66.30	68.55	69.75	67.70
Jul	70.75	71.80	71.75	70.75
Sep	72.50	73.25	72.60	71.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	10.96	10.94	11.01	10.73
Oct	9.77	9.88	9.91	9.65
Mar	9.56	[illegible]	9.72	9.53
May	9.50	9.62	9.64	[illegible]
Jul	9.43	9.53	9.56	9.54
Oct	9.28	9.45	9.44	9.41

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	62.42	62.76	63.10	62.35
Oct	63.51	63.98	64.08	63.40
Dec	63.59	[illegible]	63.65	63.40
Mar	64.60	64.90	64.95	64.50
May	65.05	65.45	65.15	65.00
Jul	65.35	65.68	0	0
Oct	63.67	63.83	0	0
Dec	63.75	64.10	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	126.85	127.40	127.30	125.80
Sep	119.00	119.85	119.60	118.90
Nov	115.00	115.60	115.70	115.00
Jan	113.90	114.20	114.40	113.65
Mar	113.75	114.15	114.00	113.60
May	113.50	113.90	0	0
Jul	113.50	113.65	0	0
Sep	113.50	113.65	114.50	114.50
Nov	113.50	113.65	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Jun.23	Jun.22	mnth ago	yr ago
1552.6	1575.6	[illegible]	1771.3

DOW JONES (Base: Dec. 31 1974 = 100)

	Jun.22	Jun.19	mnth ago	yr ago
Spot	119.81	119.46	117.05	129.17
Futures	119.76	120.24	117.26	125.02

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	603/4	595/4	605/4	592/0
Aug	606/4	599/2	608/4	596/2
Sep	611/2	602/4	613/0	600/4
Nov	618/4	609/4	620/0	608/6
Jan	625/4	618/0	627/0	615/4
Mar	634/0	625/2	634/4	623/4
May	638/0	629/4	639/4	628/0
Jul	640/0	633/0	641/0	631/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	20.71	20.61	20.80	20.45
Aug	20.90	20.77	20.94	20.63
Sep	21.11	20.98	21.12	20.78
Oct	21.28	21.14	21.25	20.90
Dec	21.55	21.43	21.58	21.37
Jan	21.68	21.55	21.68	21.40
Mar	21.92	21.75	21.92	21.90
May	22.15	22.00	22.15	22.00

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	181.2	179.9	182.2	179.0
Aug	181.7	180.6	182.6	179.6
Sep	183.0	181.6	183.6	180.5
Oct	[illegible]	[illegible]	200.0	196.3
Dec	200.1	197.4	200.5	196.4
Jan	[illegible]	197.5	200.8	196.8
Mar	201.7	198.6	202.0	199.0
May	203.3	200.0	203.3	200.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	251/2	248/0	251/4	248/0
Sep	255/4	252/2	256/0	250/4
Dec	260/4	256/2	261/0	253/2
Mar	266/2	263/4	266/4	260/6
May	272/0	267/6	272/0	268/0
Jul	275/0	270/6	275/0	269/2
Sep	262/6	260/2	262/6	260/0
Dec	262/0	258/2	262/0	256/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	351/4	354/2	353/6	350/4
Sep	355/6	358/0	357/0	354/0
Dec	363/4	366/2	365/0	362/4
Mar	363/4	366/0	365/0	362/4
May	350/4	353/0	350/4	348/4
Jul	331/0	333/0	331/4	330/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	72.250	73.150	73.225	72.200
Aug	70.950	71.100	71.100	70.725
Oct	71.275	71.325	71.450	71.075
Dec	70.175	70.200	70.350	69.975
Feb	69.475	69.550	69.650	69.375
Apr	[illegible]	70.575	70.750	70.500
Jun	68.050	68.000	68.250	68.025

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	52.000	[illegible]	52.000	51.000
Jul	46.975	46.700	47.025	46.600
Aug	43.875	44.075	44.050	43.800
Oct	40.175	40.225	40.450	[illegible]
Dec	42.100	42.250	[illegible]	41.975
Feb	43.300	43.300	43.475	43.300
Apr	42.450	42.300	42.650	42.350

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	32.075	33.050	32.800	31.750
Aug	[illegible]	30.600	30.350	29.600
Feb	41.350	41.925	41.800	41.000
Mar	41.100	41.500	41.500	40.900
May	41.800	43.000	[illegible]	41.700
Jul	41.800	42.500	42.300	41.900

LONDON STOCK EXCHANGE

Good recovery but volume still thin

By Terry Byland,
UK Stock Market Editor

BETTER performances from both Tokyo and Wall Street found a warm response in London yesterday, although the recovery in share prices was checked briefly when the disclosure of continued high money supply in Germany undermined prospects for interest rate cuts.

Trading volume in UK equities was disappointing, however, and a 10-point rally in the FT-SE Index leaned heavily on strong performances among the pharmaceutical stocks.

London was clearly pleased by the closing tone to the previous session on Wall Street, where an initial loss of 30 on the Dow Average was reduced to 4.55, and also by the 185-point rally in the Nikkei Average. However, the opening gain in London proved to be little more than a marking-up operation by marketmakers, buttressed by a small trading programme. The advance in share prices was soon trimmed.

There was some disappointment at the absence of follow-through support from the institutions, and at the further selling of Lasmo on nervousness regarding the impending sale of shares in the Ultramar interests in the US.

The news on German money supply hit London early in the session and share prices soon turned downwards. The initial gain of 13.7 on the Footsie had been converted into a loss of 10.7 by mid-morning.

Account Dealing Dates		
First Dealings:		
Jun 15	Jun 29	Jul 13
Option Declarations:		
June 25	Jul 9	Jul 23
Last Dealings:		
Jun 26	Jul 10	Jul 24
Account Day:		
Jul 6	Jul 20	Aug 3

*New-time dealings may take place from 8.30 am two business days earlier.

The revival of optimism on Wall Street then began to show through in London in the shape of gains in the blue chip international stocks. Pharmaceuticals were to the fore, both Glaxo and SmithKline Beecham recovering some of their recent losses. ICI also came in for support as some investors took the view that the setback which followed last week's meeting with analysts had been somewhat overdone.

The strength of the blue chips helped market indices to move higher, and sentiment was further encouraged by a firm opening to the new session on Wall Street where the Dow Average showed a gain of 12.58 in UK trading hours.

Although buyers were said to be cautious and willing to take only small packets of stocks, the market continued its renewed advance into the second half of the session. At its final reading of 2,560.6, the FT-SE Index was a net 10.3 up on the day.

The nervousness provoked by withdrawal of the GPA share issue appeared to settle. There were favourable reports on the underwriting of the planned Telegraph share issue.

Wellcome, also preparing to sell shares in the market, gained ground.

Those market strategists who have maintained that the UK stock market is attractive on valuation grounds at a Footsie level of around 2,550 expressed further confidence following yesterday's performance. Mr Robin Aspinall at Panmure Gordon commented that the Footsie might reach new highs, "but not until Wall Street can lend a hand."

The weak factor in the market remained the lack of genuine investment business. Seaq-reported volume was an unexciting 368.7m shares, compared with 371.9m on Monday. Retail, or customer, business in equities has stayed below the £1bn mark in recent sessions.

Lasmo pricing worries

THE SETBACK in Lasmo shares continued and the stock was the worst performer in the Footsie list yesterday on widely ranging rumours that the proposed International Public Offer of shares in the Ultramar downstream interests was about to be withdrawn. News on the offer is expected today.

Adverse rumours regarding the pricing of the offer, circulating for some time, increased significantly following last week's unexpected withdrawal of the planned GPA flotation.

Last week, dealers were expecting the Ultramar interests to be priced at $19 to $22 a share, but by Monday forecasts had been shaved to $17 to $19. By yesterday afternoon, forecasts had been reduced yet further, to around $15 a share.

Lasmo plummeted 15 to 172p, its lowest level since December 1987. Turnover was a heavy 5.6m shares. Since last Wednesday the stock has fallen 37p.

Abbey Nat'l shift

The recent slide in the Abbey National share price, triggered by broker profits downgrades, was reversed yesterday after broker UBS Phillips & Drew was said to have shifted its position on the shares from "hold" to "buy". The stock rallied 7 to 274p on good turnover of 3.6m.

Dealers said UBS, whose research in the housing/building society areas is highly respected by fund managers, had told its clients that Abbey's rating now fully reflected the scale of bad debts but not the expected recovery of inherently reliable earnings in 1993.

James Capel, the leading agency broker, last week chopped its current year profits forecast for Abbey from £635m to £580m. UBS is said to be predicting profits of £600m.

Bass upset

Bass slipped 4 to 596p on suggestions that there is growing overcapacity in the UK beer market and on doubts about the benefit to the parent company from Holiday Inns, its US hotels subsidiary. Lehman Brothers was negative about Bass on both counts, saying that, as the largest brewer, Bass is easily the most exposed to the UK market.

The US securities house said that after a recent visit to Foster's UK brewing arm it believed that Courage is capable of producing much more beer at relatively little cost to itself.

Lehman is also concerned that Holiday Inns will not produce the benefits hoped for, because only 13 per cent of its North American operation is owned or managed, with the other 87 per cent franchised, and as such is likely to be a much smaller beneficiary from any US economic upturn.

Threats of overcapacity in the UK brewing industry hurt several shares, including Whitbread "A", down 3 at 419p. Other drinks companies, with a greater exposure to the international spirits trade, had a firmer tone. Allied-Lyons gained 4 to 649p and Guinness 2 to 569p. Regional brewer Mansfield Brewery remained in demand, rising 10 to 720p.

In a generally ragged oil and gas sector, BP came under fire early in the session, apparently weakened by bearish forecasts issued by at least two of the market's leading analysts of the sector, Kleinwort Benson and BZW, although this was not confirmed.

BP retreated to 238p before stabilising and closing only a fraction off at 244p; turnover was 7.7m shares. Dealers expect more big downgrades of BP to follow.

After receiving a battering on Monday, pharmaceutical shares bounced on a mixture of technical factors and specific features. Wellcome jumped 18 to 981p after stating that the US Food and Drug Administration had approved the use of a Roche product to be used in combination with Wellcome's Retrovir in the treatment of Aids.

Recovering all the previous session's loss, Glaxo leaped 23 to 712p as the market felt the threat from Sandoz's rival migraine treatment had been overdone. SmithKline Beecham benefited from the positive sentiment, advancing 24 to 884p.

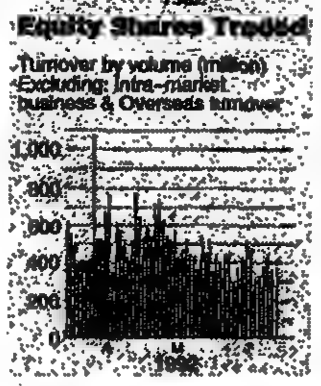
A downgrading by Kleinwort Benson knocked Pearson, the publisher's shares dipping 6 to 403p. The house lopped £20m and £25m respectively off this and next year's profits forecasts, now at £165m and £185m.

Merchant banks were given a rough ride after a block of 420,000 shares in S.G. Warburg were crossed some 20p below the then ruling market price. At the close Warburg shares were 14 down at 530p on turnover of 1.1m. Kleinwort Benson was also under pressure, closing 13 weaker at 291p.

Kingfisher, the Woolworth to B & Q holding company, gave up 10 to 513p as analysts took a cautious view of the stock. Smith New Court lowered its profits forecast for 1992/93 by £10m to £230m, on the view that second-half recovery might not meet expectations.

It was also suggested that S.G. Warburg Securities had cut its forecast by £5m to £240m on falling margins at B & Q.

High street retailer Burton was steady at 48½p after subsidiary Redcastle made a £100m zero coupon issue, aimed at raising £60m after expenses.



The slide in Ratners continued with a penny decline to 8p, nearly halving the company's stock market valuation since the beginning of the month.

The recovery in Ladbroke shares continued as County NatWest reiterated its positive stance, first made last week, and Kleinwort Benson marked it out as a long-term buy. Ladbroke gained 7 to 219p.

The Kleinwort recommendation came in a comprehensive analysis of the gaming and gambling market, which it reports as making an unexpectedly fast recovery from the recession. The house also tips Rank Organisation, 6 dearer at 668p.

Worries over a potential price war kept holiday group Airtours under a cloud, in spite of reporting good interim figures. The shares slipped 3 to 266p, while rival Owners Abroad lost 2 to 75½p.

British Airways was in demand on hopes that the airline will benefit from European deregulation. The stock moved ahead 7 to 274p in brisk trade of 5.3m.

Victaulic shares lost almost 10 per cent of their value after Hoare Govett weighed in with a profits downgrading. They ended 37 down at 344p, the second worst performing stock yesterday.

Nerves ahead of next Monday's results continued in British Steel, which eased a penny to 69p. The announcement of the departure of the company's chief executive sent ML Holdings down 7 to 37p. Fenner firmed a penny to 81p as it was reported that Wassall, steady at 175p, now holds a 1.6 per cent stake in the company.

MARKET REPORTERS:
Christopher Price,
Steve Thompson, Joel Kibazo,
Colin Millham.

■ Other market statistics, Page 22

FINANCIAL TIMES STOCK INDICES

	June 23	June 22	June 19	June 18	June 17	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	88.55	88.67	88.73	88.75	88.78	83.68	89.62 (29/5)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	104.28	104.33	104.36	104.25	104.36	92.82	105.92 (2/6)	97.15 (2/1)	105.92 (2/6/92)	50.53 (3/1/75)
Ordinary Share ●	1998.7	1986.4	2008.6	1995.4	2022.1	1921.1	2149.7 (22/5)	1851.8 (3/4)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	97.1	98.7	102.4	103.2	105.1	200.7	160.6 (10/1)	97.1 (23/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2560.6	2550.3	2584.8	2582.7	2598.4	2468.3	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1185.92	1188.61	1195.73	1188.54	1202.27	1155.32	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	938.62 (16/1/91)
●Ord. Div. Yield	4.62	4.65	4.61	4.65	4.58	4.94				
●Earning Yld %(full)	6.77	6.83	6.77	[illegible]	6.72	6.70				
●P/E Ratio(Net)(☆)	18.46	18.34	18.50	18.36	18.65	14.14				
SEAQ Bargns 5.00pm	21,070	21,824	22,417	22,049	22,012	22,421				
Equity Turnover(£m)†	-	949.3	884.7	1030.7	868.8	593.21				
Equity Bargains†	-	25,058	24,194	28,079	24,094	22,489				
Shares Traded (ml)†	-	368.5	365.6	453.8	369.6	267.2				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 17.14. ‡ Partial.

Ordinary Share Index, Hourly changes Day's High 1997.5 Day's Low 1977.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1996.3	1989.6	1982.0	1982.7	1987.0	1987.8	1989.3	1990.7	1995.4

FT-SE 100, Hourly changes Day's High 2564.0 Day's Low 2539.6

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2562.0	2554.5	2543.1	2544.7	2548.8	2549.8	2551.7	2552.3	2559.0

FT-SE Eurotrack 200, Hourly changes Day's High 1186.65 Day's Low 1182.45

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1183.82	1182.45	1183.87	1183.96	1185.20	1184.99	1185.82

GILT EDGED ACTIVITY

Indices*	June 22	June 19
Gilt Edged Bargains	92.6	84.0
5-Day average	88.1	88.5

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

TRADING VOLUME IN MAJOR STOCKS

Volume 000's, Closing Price, Day's change.

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

A LARGE deal in traded options not only boosted turnover but also led to falls in stock index futures in a busy session for the derivatives markets, writes Joel Kibazo.

Following Monday's dull session in which only 24,842 contracts were traded, Tuesday's volume soared to 44,286 contracts. Activity in the FT-SE option accounted for a large part of the day's total, with James Capel reported to have done a "call spread" deal in the December series. The FT-SE option had traded a total of 16,105 lots by the close, while turnover in the Euro-FTSE reached 8,604.

Stock options were also busy ahead of today's expiry of the June stock options. Asda was the top traded option with a day's total of 3,011 contracts.

The big trade in the options was said to have had an effect on the day's activities in stock index futures. The September contract on the FT-SE opened at 2,561 and was briefly squeezed up to 2,601, which proved to be the high of the day.

It was the James Capel trade that sent September into retreat, although Wall Street helped it recover to 2,591, up 13 on the previous session but around three points below its estimated fair value premium to cash of about 35. Turnover reached 7,410. Dealers however expect a poor opening today.

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section	Tuesday June 23 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1992 to date	Mon Jun 22 Index No.	Fri Jun 19 Index No.	Thu Jun 18 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (178)	840.87	+0.1	6.85	5.47	18.93	16.21	840.13	850.83	848.95	821.56
2 Building Materials (22)	948.89	+0.9	5.90	5.91	22.78	22.03	940.28	962.99	960.06	1038.43
3 Contracting, Construction (28)	858.58	-0.2	4.15	7.03	51.18	24.60	860.68	883.61	882.08	1204.18
4 Electricals (8)	2534.30	-0.7	6.80	6.09	19.11	66.02	2551.56	2564.80	2532.25	2344.89
5 Electronics (29)	1983.32	+0.1	8.06	4.29	15.63	9.02	1980.49	1995.80	1983.51	1719.30
6 Engineering-Aerospace (6)	350.73	+0.4	10.99	7.43	12.17	11.27	349.48	348.68	353.31	424.17
7 Engineering-General (44)	527.98	-0.3	7.58	4.52	16.39	9.02	529.82	534.25	530.38	456.58
8 Metals and Metal Forming (8)	332.84	-0.7	0.84	10.40	-	3.54	335.18	339.25	335.95	444.24
9 Motors (14)	359.30	+0.7	7.39	6.54	17.80	10.04	356.90	360.02	356.12	320.39
10 Other Industrial Materials (19)	1799.48	-0.1	7.05	4.70	17.09	34.66	1761.75	1784.10	1789.61	1505.90
21 CONSUMER GROUP (189)	1648.56	+0.6	7.39	3.48	16.61	23.58	1638.78	1661.57	1645.04	1447.48
22 Brewers and Distillers (24)	2129.97	+0.3	7.88	3.48	15.31	29.32	2122.57	2157.83	2142.95	1776.99
25 Food Manufacturing (18)	1245.08	+0.1	8.68	4.23	14.25	23.82	1243.61	1252.30	1246.42	1153.38
26 Food Retailing (18)	2941.48	+0.6	8.25	3.10	15.87	44.51	2924.72	2940.48	2894.06	2590.81
27 Health and Household (24)	3894.31	+2.3	7.08	2.72	16.10	36.33	3805.20	3883.59	3845.28	3518.50
29 Hotels and Leisure (20)	1309.30	+0.7	6.04	5.17	21.44	23.50	1300.44	1310.75	1289.35	1250.53
30 Media (25)	1568.52	-0.3	6.16	3.34	20.08	25.88	1573.33	1592.84	1571.56	1385.21
31 Packaging, Paper & Printing (17)	801.57	-0.4	6.43	4.12	18.07	14.29	804.71	811.57	801.99	680.12
34 Stores (33)	1055.46	-0.8	7.10	3.51	18.37	15.85	1063.81	1082.26	1073.19	882.84
35 Textiles (10)	703.01	-0.3	6.58	4.42	19.24	12.44	704.79	705.77	696.89	535.77
40 OTHER GROUPS (116)	1267.89	+0.3	9.79	5.16	12.74	19.74	1264.28	1274.89	1264.67	1194.72
41 Business Services (17)	1418.42	+0.3	6.32	3.64	19.32	15.14	1413.85	1427.64	1412.02	1251.07
42 Chemicals (22)	1468.41	+0.4	7.20	4.97	17.03	31.75	1462.49	1475.85	1482.54	1375.08
43 Conglomerates (11)	1307.76	+0.9	9.87	7.26	12.65	23.62	1296.16	1306.72	1284.65	1388.54
44 Transport (14)	2584.14	+0.9	7.92	4.54	15.38	49.58	2560.95	2568.71	2530.47	2172.69
45 Electricity (16)	1311.14	+0.5	14.22	5.26	8.91	17.21	1305.25	1315.44	1305.19	1165.72
46 Telephone Networks (4)	1390.99	-0.5	11.14	4.75	11.70	17.36	1398.69	1411.27	1403.08	1401.09
47 Water (10)	2739.64	+0.7	16.10	6.26	6.84	54.92	2719.82	2728.54	2697.77	2266.08
48 Miscellaneous (22)	2027.74	+0.2	5.54	4.86	24.18	23.41	2022.72	2049.09	2026.85	1912.66
49 INDUSTRIAL GROUP (483)	1326.81	+0.4	8.04	4.38	15.69	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (95)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (69)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (655)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE 100 SHARE INDEX	2560.6	+10.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

NEW HIGHS AND LOWS FOR 1992

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

BRITISH FUNDS - Cont.

Index - Linked

OTHER FIXED INTEREST

AMERICANS

Notes	Price £	+or -	1992 High	low	Mkt Cap£m	Yld Gr's
Abbott Labs......h	19½xr	[illegible]	18⅞	14⅝	13,158	2.2
♥Allegheny & W.	289p	—	335p	228p	100.2	5.8
Amdahl	884p	-16	1159p	804p	890.0	0.7
Amer Cyanamid	29	—	37	28⅞	2,858	3.2
Amer Express	12¼xd	+⅛	13⅞	10⅜	6,029	4.4
Amer T & T	22½xd	-⅛	24⅞	20⅛	24,736	3.3
Ameritech	34¼	+⅛	36⅜	32½	15,214	5.7
BankAmerica	23⅛xd	-⅛	27⅛	19⅛	7,931	3.2
Bankers NY	29⅛xd	-⅛	37¼	28⅞	2,467	5.3
Bell Atlantic	23⅞	-⅛	28⅛	23⅛	10,278	6.1
BellSouth	26⅛	+½	29⅛	25	13,019	5.8
♥Bethlehem Steel	7⅞xd	-⅛	9⅝	7	681.5	—
Bowater	1078pxd	[illegible]	1579p	1078p	366.5	6.3
CPC......h	[illegible]	+⅛	25⅛	22⅛	3,780	2.8
♥Cadiz Land Inc	241p	—	342p	169p	—	—
California Engy	635p	—	880p	635p	115.6	—
Campbell Soup	[illegible]	+⅛	23⅛	17⅛	4,488	2.5
Chase Manhattan	14⅛xd	-⅛	[illegible]	9⅛	1,977	4.8
Chrysler	11⅛xd	-⅛	11½	6¼	3,278	3.0
Citicorp	[illegible]	-⅛	11¼	5⅞	3,787	—
Colgate-Palm	[illegible]	-⅛	28⅛	25⅛	4,187	2.3
Cont'l Bank	684p	-30	1030p	499p	893.3	3.8
Dana	23⅛xd	-⅛	24½	14⅛	1,840	3.9
Data General	388p	-15	1004p	388p	187.1	—
♥Decora Inds	98p	—	122p	66p	—	—
[illegible]	[illegible]	-⅛	24⅛	18⅞	789.2	3.3
Dun & Brad	[illegible]	-⅛	33½	27⅞	5,219	4.4
Eaton	41⅞	+⅛	45½	32½	1,488	3.0
Echlin	9⅞xd	-⅛	11	7⅞	544.6	4.0
FPL	18⅝xd	+⅛	28	18⅛	3,157	7.4
Fluor	21⅛xd	-⅛	27	21	1,722	1.1
Ford Motor	24⅛	-⅛	26⅞	15	11,846	2.3
Gen Elect	41⅞xd	-⅛	46¼	40⅛	38,321	2.9
♥General Host	458p	—	556p	380p	—	4.7
Gillette	24⅛xd	+⅛	29⅞	23½	5,302	1.7
Hasbro	18⅛	—	18	12⅞	1,314	0.7
Honeywell	[illegible]	-⅛	43	34⅛	2,344	2.5
Houston Inds	23⅞	—	25	23	3,027	7.1

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

OIL & GAS - Cont.

PACKAGING, PAPER & PRINTING - Cont.

STORES - Cont.

MINES - Cont.

METALS & METAL FORMING

TELEPHONE NETWORKS

TEXTILES

PROPERTY

MISCELLANEOUS

INVESTMENT COMPANIES

OTHER FINANCIAL

TRANSPORT

WATER

MEDIA

OTHER INDUSTRIAL MATERIALS

SOUTH AFRICANS

PLANTATIONS

MOTORS

STORES

TEAS

MINES

PACKAGING, PAPER & PRINTING

OIL & GAS

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion.

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F

[illegible]

Abbey Unit Tst Mngrs (1000)H

[illegible]

Brown Shipley & Co Ltd – Contd.

[illegible]

CCL Unit Trusts Ltd (1400)F

[illegible]

Canada Life Unit Tst Mgrs Ltd (1200)F

[illegible]

Pearl Unit Trusts Ltd (1000)F

[illegible]

Save & Prosper Group (0900)H

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American	5	251.9	251.9	267.8	-1.5	0.85
(Accum Units)	5	276.5	276.5	315.2	-1.8	0.85
British	5	834.8	851.1	900.5	-4.7	3.58
(Accum Units)	5	1400.0	1427.3	1510.1	-7.9	3.58
European	5	339.1	339.4	360.8	+0.2	1.46
(Accum Units)	5	367.4	367.4	391.1	+0.2	1.46
Japan	5	90.95	90.95	96.07	+0.07	-
(Accum Units)	5	91.66	91.66	97.64	+0.07	-
New Pacific	5	203.7	204.3	217.6	+0.2	1.61
(Accum Units)	5	210.8	211.5	225.2	+0.2	1.61
Investment Tst June 12	5	142.7	144.1	152.5	....	2.50
Magd Equity	5	128.0	129.4	136.9	-0.5	2.84
Magd Equity Acc	5	135.8	137.3	145.3	-0.5	2.84
Magd Cash	0	96.08	96.08	96.08	...	9.31
(Accum Units)	0	121.7	121.7	121.7	...	9.31
Majority Stlg	1	101.03	101.03	102.04	+0.02	8.97
Majority Stlg Acc	1	112.04	112.04	113.16	+0.02	8.97
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
International Jul 15	0	48.99	48.99	49.44	....	2.30
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
St Mark's Court, Horsham 0403 232323						
Equity	6	616.4	616.4	659.3	-3.7	3.03
North America	6	75.28	75.28	80.51	-0.45	0.55
Far East	6	84.71	84.71	90.60	+0.28	0.55
W'wide Bond	6	46.99	46.99	49.99	-0.03	6.22
European	6	67.41	67.41	72.10	+0.15	1.46
Equity Income	6	67.29	67.29xd	71.47	-1.38	5.39
Portfolio	6	56.86	56.86	60.81	-0.14	1.76
UK Leading Cos	6	44.07	44.67	47.52	....	3.10
Dealer Trusts						
Intnl Equity	6	44.54	44.94	48.06	-0.20	2.84
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants 0800 525725						
American Growth	6	24.41	24.41	26.11	-0.30	0.73
Managed Assets	6	101.56	101.98	109.07	-0.72	3.28
UK Income	6	31.09	31.45xd	33.64	-0.27	4.47
UK Growth	6	31.68	32.01	34.24	-0.32	3.35
Worldwide Growth	6	22.41	22.41	23.97	-0.21	1.30

	Bid Price	Offer Price	+ or -	Yield Gross
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Property May 31	170.25	194.05	....	8.22
Equity May 31	922.95	935.85	....	3.76
* Available only to Local Authorities				
M & G Securities Ltd				
Charibond June 22	104.98		-0.1	10.27
(Accum Units)	652.59		-0.9	10.27
NAACIF Jun 16	42.00		....	8.95
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † June 23	132.5	142.0	-2.7	1.90
UK Small Co † June 23	531.1	581.6	-12.10	3.44
Fixed Interest † June 23	110.4	116.2	+0.2	8.61
US Small Co June 23	138.1	147.8	-7.5	0.00
Managed June 23	110.0	117.7	-2.1	3.64
Intl Bond June 23	121.0	127.7	+0.6	10.05
Japan June 23	56.77	60.48	-2.7	1.26
European June 23	90.91	97.32	-1.2	1.72
Nth American June 23	103.8	111.8	-3.9	1.41
Morgan Stanley International				
UK Exempt	£1163.83	1188.00	....	-
Overseas Exempt	1082.71	1102.86	....	-
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
American Exempt	49.44	51.42	-0.86	1.87
European Exempt	51.52	54.10	+0.37	2.55
Fixed Int Ex Jun 17	46.40	47.59xd	....	9.06
Japan Exempt	34.28	35.66xd	-0.08	0.86
Managed Ex June 18	46.41	48.27	....	4.85
SE Asia Exempt	80.03	84.04	+0.41	2.20
Sm Cos Expt Jun 17	37.21	39.07xd	....	3.09
UK Eqty Ex Jun 17	44.57	46.80	....	3.80
Phillips & Drew Fund Management Ltd				
Small Co's Jun 3	736.91	783.90	....	3.76
Do Accum	860.3	915.16	....	3.76

	Bid Price	Offer Price	+ or -	Yield Gross
Century Life Plc—Contd.				
Pension Funds				
Managed Capital	75.1	79.0	-0.6	-
Managed Accum	108.0	113.7	-0.7	-
Property Capital	78.4	82.5	-0.3	-
Property Accum	112.5	118.5	-0.4	-
Equity Capital	109.7	115.5	-0.9	-
Equity Accum	157.8	166.2	-1.2	-
Intl Capital	66.4	69.9	-0.2	-
Intl Accum	95.4	100.4	-0.3	-
Fxd Int Capital	135.2	142.3	-0.3	-
Fxd Int Accum	194.2	204.4	-0.4	-
Deposit Capital	121.6	128.0		-

	Bid Price	Offer Price	+ or -	Yield Gross
Equitable Life Assurance Society				
Walton St, Aylesbury Bucks HP21 7QW 0296 393100				
European	124.6	131.2	-0.1	-
Far Eastern	296.8	312.4		-
Fd of Inv Tsts	234.7	247.1	-0.3	-
Gilt & Fixed Int	177.3	186.6	-0.3	-
High Income	271.8	286.1	+0.1	-
Intnl Growth	148.2	156.0	-0.4	-
Managed	193.2	203.4	-0.1	-
Money	163.8	172.4		-
North American	160.3	168.7	+0.1	-
Pelican	227.6	239.6	-0.2	-
Property	173.9	183.2		-

	Bid Price	Offer Price	+ or -	Yield Gross
Henderson Administration(z)				
3 Finsbury Ave, London, EC2 M2PA 071-638 5757				
UK Equity	311.2	331.1	-3.3	-
Fixed Interest	64.7	68.9	-0.1	-
N America	241.2	256.6	+1.2	-
Far East	342.1	364.0	-2.7	-
Global Managed	319.5	339.9	-2.9	-
Deposit	208.5	219.5		-
Prime Res	133.4	140.5		-
European	187.5	199.5	-0.8	-
Pension Funds				
UK Equity	344.5	366.5	-3.1	-

	Bid Price	Offer Price	+ or -	Yield Gross
Life Association of Scotland				
113 Dundas St, Edinburgh EH3 5EB 031-550 5000				
LAS Investment Assurance				
Managed Fund	265.4	279.4	-1.3	-
UK Equity	456.0	480.0	-3.3	-
Property	291.2	306.6	+0.3	-
Money Market	229.7	241.8	+0.1	-
Fixed Interest	269.6	283.8	-0.2	-
Japan	233.3	245.6	-1.8	-
North America	116.6	122.8	-0.6	-
International	202.5	213.2	-0.6	-
European	192.9	203.1	-0.4	-
Far East	79.8	84.0	-0.2	-

	Bid Price	Offer Price	+ or -	Yield Gross
NEL Britannia Assce Co Ltd—Contd.				
Specialist Funds				
Barings Convertibles	110.9	116.7	-0.5	-
Barings Eastern	119.2	125.5	-0.2	-
Barings Equity Income	97.6	102.7	-0.1	-
Barings European Growth	107.7	113.4	-0.4	-
Barings German Growth	105.2	110.7	-0.3	-
Barings Japan Growth	80.5	84.7	-0.7	-
Barings UK Smlr Cos	114.2	120.2	-0.1	-
Fidelity 1992 Euro Opps	100.3	105.6	-0.2	-
Fidelity American	110.0	115.8	+0.4	-
Fidelity Amer Sp Sits	122.3	128.7	+0.8	-
Fidelity Asian	119.9	126.2	-2.0	-

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Pearl Assurance (Unit Funds) Ltd
Lynch Wood, Peterborough PE2 6FY 0733 470470

	Bid Price	Offer Price	+ or –	Yield Gross
Property Dist. (Gross)	135.7	142.8	+0.3	–
Property Acc. (Gross)	258.6	272.2	+0.6	–
Equity (Gross)	875.5	921.6	–7.8	–
Managed (Gross)	612.9	645.2	–4.0	–
Property Acc. (Net)	123.6	130.1	+0.3	–
Equity (Net)	203.2	213.9	–1.7	–
Adventurous Managed	93.0	97.9	–0.2	–
Managed (Net)	188.5	198.4	–1.1	–
Cautious Managed	95.9	100.9	----	–
International (Net)	159.7	168.1	–0.4	–
Gilt & Fixed Interest	140.2	147.6	----	–
Money Fund	139.7	147.0	----	–
Mixed Fund (Cap)	118.4	124.7	----	–
Mixed Fund (Acc)	122.8	129.3	----	–
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	665.0	700.1	–4.5	–
Ret Man (Series 2)	225.6	237.5	–1.5	–
Pen Cash	196.8	207.2	+0.1	–
Pens Mixed Fd (Cap)	131.4	138.4	----	–
Pens Mixed Fd (Acc)	136.3	143.5	----	–
Pens Stlg Fd (Cap)	103.4	108.9	----	–
Pens Stlg Fd (Acc)	107.3	113.0	----	–

Pegasus Assurance Ltd
Broad Quay, Bristol BS1 4DJ 0272 230271

	Bid Price	Offer Price	+ or –	Yield Gross
Life Funds				
Managed Aggressive	102.7	108.2	–0.2	–
Managed Balanced	100.1	105.4	–0.1	–
Managed Cautious	112.0	117.9	–0.2	–
Pension Funds				
Managed Aggressive	107.8	113.6	–0.2	–
Managed Balanced	105.0	110.6	–0.1	–
Managed Cautious	115.8	121.9	–0.2	–

For Pioneer Mutual see Swiss Pioneer

Premium Life Assurance Co Ltd
37–39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or –	Yield Gross
American	133.0	140.0	+1.0	–
Building Soc. Fd.	223.0	235.0	+1.0	–

Provident Mutual Life Assc. Assn. – Contd.

	Bid Price	Offer Price	+ or –	Yield Gross
Index Linked Gilt Init.	128.1	134.8	----	–
Overseas Equity Ord.	258.8	272.4	+0.1	–
Overseas Equity Init.	189.0	198.9	+0.1	–
Property Ord.	222.2	233.9	----	–
Property Init.	162.2	170.7	----	–
Fixed Interest Ord.	227.4	239.4	–0.3	–
Fixed Interest Init.	166.0	174.7	–0.2	–
Deposit Ord.	186.8	196.6	----	–
Deposit Init.	136.4	143.6	----	–
Pension Funds				
Managed Ord.	459.4	483.6	–1.1	–
Managed Init.	335.4	353.1	–0.8	–
Equity Ord.	712.0	749.5	–3.4	–
Equity Init.	519.8	547.2	–2.5	–
Pen Ind Lkd Gilt Ord.	189.6	199.6	----	–
Pen Ind Lkd Gilt Init.	144.5	152.1	----	–
Overseas Equity Ord.	293.2	308.6	+0.2	–
Overseas Equity Init.	214.1	225.4	+0.1	–
Property Ord.	280.0	294.7	----	–
Property Init.	204.4	215.2	----	–
Fixed Interest Ord.	289.5	304.7	–0.4	–
Fixed Interest Init.	211.4	222.5	–0.2	–
Deposit Ord.	268.2	282.3	+0.1	–
Deposit Init.	195.8	206.1	----	–

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	+ or –	Yield Gross
Prufund				
Managed Jun 17	264.0	275.0	----	–

Prudential Corporate Pension Funds
1 Stephen St, London W1P 2AP 071-548 3281

	Bid Price	Offer Price	+ or –	Yield Gross
Prudential Managed Funds				
Discretionary Jun 17	£189.80	195.69	----	–
Equity Jun 17	£220.80	228.33	----	–
International Jun 17	£26.63	27.20	----	–
Intl Bond Jun 17	£14.17	14.36	----	–
Fixed Int Jun 17	£105.29	106.49	----	–
Index Linked Jun 17	£77.56	78.54	----	–
Property Jun 17	£109.66	115.74	----	–
Cash Jun 17	£36.7023	36.7023	----	–

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323

Sun Alliance Group
St Mark's Court Horsham 0403 232323

Windsor Life Assur Co Ltd – Contd.

Royal Life Intl. Ltd – Contd.

Fidelity Money Funds – Contd.

Royal Bank of Canada Offshore Fd Mgrs Ltd
PO Box 246, St Peter Port, Guernsey 0481 723021

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OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

DM steady on M3 growth news

NEWS of higher than expected German monetary growth led to early strength in the D-Mark and a slightly weaker dollar yesterday, *writes Peter John.*

However, currencies were trading within a very narrow range and were principally controlled by technical factors.

The market had been hoping that Germany's M3, the measure of money that includes cash savings and long-term deposits of up to four years, would show an annualised growth of around 8.5 per cent.

Yesterday's strong May figure of 9 per cent, compared with April's 8.9 per cent, meant growth remained well above the Bundesbank's 3.5 to 5.5 per cent 1992 target and dashed hopes of an imminent interest rate cut.

Nevertheless, Mr Mark Austin, an economist at HongKong Bank, remained broadly optimistic. "Money supply is not the only thing the Bundesbank looks at," he said. "They are also keeping an eye on the level of unemployment and the relatively slow industrial production growth and it seems likely that there will be a cut, just later than anticipated."

The D-Mark rose against most key currencies in early trading on a flurry of buying. Then, a number of dealers found themselves unnecessarily long by the afternoon and began to adjust their books. The German unit closed unchanged against the dollar at DM1.566 and marginally softer against the pound at DM2.917. In New York the dollar finished at DM1.5662.

The US currency was propped up by what one dealer called "the increasingly discounted drip feed of optimism from the Federal Reserve". It closed steady against the pound at $1.863

The market also concentrated on stronger signs from Japan's governing Liberal Democratic Party of an impending boost in fiscal expansion, either through increased spending on public works or via tax cuts. As a result the yen was steady against the pound at Y237 and practically unchanged against the dollar.

Dealers said sterling moved very much in line with the dollar and was likely to edge lower in line with the US currency in the absence of fresh domestic factors.

The lira, which had regained ground after a week-long battering on international markets, gave the Bank of Italy enough room to let short-term rates ease, but further falls depended on the political outlook, analysts said.

At yesterday morning's repurchase tender, the minimum accepted rate fell to 14.15 per cent, down 65 basis points from the highs it touched last week as fears of a devaluation swept the market. However, an Italian economist commented: "Do not expect repurchase rates to go far under 14 per cent for the moment."

£ IN NEW YORK

June 23	Close	Previous Close
£ Spot	1.8620-1.8630	1.8620-1.8630
1 month	1.02-1.00pm	0.95-0.93pm
3 months	2.80-2.77pm	2.78-2.75pm
12 months	9.32-9.22pm	9.25-9.15pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

*Floating rate. Iran Official rate £120.10 $65.10

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 23	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	170.304	-4.72	5.92	77
Spanish Peseta	133.631	129.089	-3.40	4.47	[illegible]
Belgian Franc	42.4032	42.2087	-0.46	1.39	24
Dutch Guilder	2.31643	2.31043	-0.26	1.18	14
D-Mark	2.05586	2.05068	-0.25	1.18	18
Irish Punt	0.767417	0.767253	-0.02	0.94	2
French Franc	6.89509	6.90491	0.14	0.78	-6
Danish Krone	7.84195	7.88290	0.52	0.40	-22
Italian Lira	1538.24	1550.74	0.81	0.11	-39
Sterling	0.696904	0.703329	0.92	0.00	-60

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Jun 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8620 - 1.8700	1.8630 - 1.8640	1.01-0.99cpm	6.44	2.80-2.77pm	5.98
Canada	2.2250 - 2.2325	2.2250 - 2.2260	0.84-0.78cpm	4.37	1.61-1.52pm	2.81
Netherlands	3.2825 - 3.2975	3.2825 - 3.2925	⅛-parcpm	0.46	⅜-⅛pm	0.30
Belgium	59.90 - 60.15	60.05 - 60.15	7-2cpm	0.90	10-4pm	0.47
Denmark	11.2050 - 11.2300	11.2075 - 11.2175	½-1¼oredis	-0.94	1¾-2¾dis	-0.78
Ireland	1.0870 - 1.0930	1.0870 - 1.0880	0.02dis-0.01cpm	-0.06	0.06-parpm	0.11
Germany	2.9125 - 2.9200	2.9150 - 2.9200	⅛-parpfpm	0.26	⅛-parpm	0.17
Portugal	241.45 - 242.60	241.60 - 242.60	51-90cdis	-3.49	234-293dis	-4.35
Spain	183.10 - 183.75	183.45 - 183.75	36-44cdis	-2.61	[illegible]	[illegible]
Italy	2201.25 - 2209.00	2207.75 - 2208.75	6-10lireldis	-4.89	20-23dis	-3.89
Norway	11.3925 - 11.4275	11.4100 - 11.4200	⅛-⅛oredis	-0.39	⅛-1½dis	-0.35
France	9.8050 - 9.8325	9.8150 - 9.8250	par-⅛cdis	-0.15	⅛-⅜dis	-0.23
Sweden	10.5175 - 10.5525	10.5325 - 10.5425	⅛-1⅞oredis	-1.28	3⅛-4⅛dis	-1.54
Japan	236.50 - 237.50	236.50 - 237.50	1⅛-1ypm	5.70	3⅛-3pm	5.17
Austria	20.49 - 20.53	20.49 - 20.52	1⅛-⅛gropm	0.48	2⅛-parpm	0.26
Switzerland	2.6300 - 2.6450	2.6350 - 2.6450	⅛-⅛cpm	0.85	⅛-⅛pm	0.66
Ecu	1.4200 - 1.4235	1.4220 - 1.4230	0.04-0.09cdis	-0.55	0.13-0.22dis	-0.49

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.38-5.33pm. 12 Month 9.32-9.22pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jun 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8620 - 1.8700	1.8630 - 1.8640	1.01-0.99cpm	6.44	2.80-2.77pm	5.98
Ireland†	1.7040 - 1.7145	1.7045 - 1.7055	0.95-0.91cpm	6.55	2.62-2.55pm	6.06
Canada	1.1935 - 1.1975	1.1960 - 1.1970	0.20-0.22cdis	-2.11	0.52-0.55dis	-1.79
Netherlands	1.7535 - 1.7655	1.7630 - 1.7640	0.89-0.91cdis	-6.12	2.52-2.56dis	-5.75
Belgium	32.05 - 32.30	32.20 - 32.30	15.40-16.50cdis	-5.95	44.00-46.50dis	-5.61
Denmark	5.9925 - 6.0225	6.0150 - 6.0200	3.45-3.75oredis	-7.18	10.05-10.65dis	-6.88
Germany	1.5575 - 1.5690	1.5650 - 1.5660	0.80-0.81pfdis	-6.17	2.30-2.31dis	-5.89
Portugal	129.60 - 130.10	130.00 - 130.10	107-117cdis	-10.33	330-350dis	-10.46
Spain	98.10 - 98.70	98.60 - 98.70	74-76cdis	-9.12	212-218dis	-8.72
Italy	1177.00 - 1185.75	1184.75 - 1185.25	10.30-11.00lireldis	-10.78	27.40-28.40dis	-9.42
Norway	6.0950 - 6.1275	6.1225 - 6.1275	3.25-3.55oredis	-6.66	9.45-9.95dis	-6.33
France	5.2450 - 5.2775	5.2675 - 5.2725	2.87-2.92cdis	-6.59	8.20-8.30dis	-6.26
Sweden	5.6250 - 5.6625	5.6525 - 5.6575	3.50-3.75oredis	-7.69	10.30-10.75dis	-7.44
Japan	126.85 - 127.25	127.15 - 127.25	0.07-0.08ydis	-0.71	0.14-0.16dis	-0.47
Austria	10.9725 - 11.0100	11.0000 - 11.0050	5.20-5.55grodis	-5.86	15.10-16.10dis	-5.67
Switzerland	1.4085 - 1.4190	1.4160 - 1.4170	0.67-0.69cpm	5.76	1.91-1.94pm	5.44
Ecu	1.3075 - 1.3160	1.3080 - 1.3090	0.77-0.75cpm	6.97	2.14-2.09pm	6.47

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Jun 23	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	10¼ - 10	10⅛ - 10¼	10⅛ - 9⅞	10⅛ - 9⅞	10 - 9⅞	10 - 9⅞
US Dollar	3⅞ - 3⅞	3⅞ - 3¾	3⅞ - 3⅞	4 - 3⅞	4⅛ - 4	4⅛ - 4⅜
Can. Dollar	6⅛ - 5⅞	6 - 5⅞	5⅞ - 5⅞	5⅞ - 5⅝	5⅞ - 5⅝	5⅞ - 5⅞
Dutch Guilder	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9⅝	9⅝ - 9⅝	9⅝ - 9½
Swiss Franc	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅛ - 9⅛	8⅞ - 8⅞
D-Mark	9⅞ - 9⅞	9⅞ - 9⅞	9⅞ - 9⅞	9⅞ - 9⅞	9⅞ - 9⅞	9⅞ - 9⅞
French Franc	10 - 9⅞	10⅛ - 9⅞	10⅛ - 10	10⅛ - 10	10⅛ - 10	10⅛ - 9⅞
Italian Lira	14 - 12	14⅛ - 13⅝	14⅛ - 13⅝	13⅛ - 12⅞	13⅛ - 13	13⅛ - 13
Belgian Franc	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½

Long term Eurodollars; two years 5⅛-5⅛ per cent; three years 6-5⅞ per cent; four years 6⅛-6 per cent; five years 6⅛-6⅛ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100

FINANCIAL FUTURES AND OPTIONS

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls September	Calls December	Calls March	Puts September	Puts December	Puts March
105	-	-	-	0.20	0.42	-
106	-	1.99	-	0.39	0.68	-
107	0.78	1.32	1.63	0.72	1.04	1.30
108	0.37	0.85	-	1.31	1.53	-
109	0.14	0.50	-	-	-	-
110	0.05	0.28	-	-	-	-
Open Int.	100,372	102,790	2,100	87,853	28,255	2,100

Estimated volume 64,143 Total Open Interest 323,070

Estimated volume 8818 (9454) Previous day's open int. 37259 (37050)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8635	1.8538	1.8357	1.8100	1.7708

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bnk	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Duncan Lawrie	10	Mount Banking	10
● Henry Ansbacher	10	Equatorial Bank plc	10	NatWestminster	10
B & C Merchant Bank	10.5	Exeter Bank Limited	10.5	Northern Bank Ltd	10
Bank of Baroda	10	Financial & Gen. Bank	10	Nykredit Mortgage Bank	10.5
Banco Bilbao Vizcaya	10	● Robert Fleming & Co.	10	Provincial Bank PLC	14
Bank of Cyprus	10	Robert Fraser & Ptnrs.	10.5	● Rea Brothers	10
Bank of Ireland	10	Girobank	10	Roxburghe Bank Ltd.	11
Bank of India	10	● Guinness Mahon	10	Royal Bk of Scotland	10
Bank of Scotland	10	Habib Bank AG Zurich	10	● Smith & Williamson Secs.	10
Banque Belge Ltd	10	● Hambros Bank	10	Standard Chartered	10
Barclays Bank	10	Hampshire Trust Plc	13.5	TSB	10
Benchmark Bank	11	Heritable & Gen Inv Bnk.	10	Unibank plc	10
Brit Bk of Mid East	10	● Hill Samuel	10	● United Bk of Kuwait	10
● Brown Shipley	10	C. Hoare & Co.	10	Unity Trust Bank Plc	10
CL Bank Nederland	10	Hongkong & Shanghai	10	Western Trust	10
Citibank NA	10	Julian Hodge Bank	10	Whiteaway Laidlaw	10
City Merchants Bank	10	● Leopold Joseph & Sons	10	Yorkshire Bank	10
Clydesdale Bank	10	Lloyds Bank	10		
Co-operative Bank	10	Meghraj Bank Ltd	10		
Coutts & Co	10				

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Sterling futures dip

LETHARGY dominated the UK money markets for the second day running, although high German money growth figures injected a little life into sterling futures.

Dealers said an increased realisation that there would be no swift cut in UK interest rates was prompted by sterling's low position on the EMS grid and hardened by the unexpectedly high figure for German money supply.

UK clearing bank base lending rate
10 per cent
from May 5, 1992

As a result, volumes on the sterling futures market returned to more acceptable levels following Monday's dismal turnover of only 7,698 lots. The September short sterling contract opened slightly lower at 90.24 and was sold down to 90.16. It then rallied slightly to close 7 ticks down from Monday's close at 90.18 on respectable turnover of 21,623 lots.

A trader commented: "The German money supply figures were higher than expected and knocked the futures market back, but it was a sign of the market's bullishness that it was able to hold at the *90.17 level.*"

Interbank rates were mainly steady throughout the day, with only the very short-term rates showing any signs of life. The overnight interbank rate touched 8 per cent at one point and the one-week rate slipped briefly below 10 per cent as shortage in the market was quickly taken out by the Bank of England.

However, the more representative one to three-month rates remained within a very tight range and closed virtually unchanged at around 10⅛ per cent.

The Bank of England's initial forecast liquidity shortage was around £850m, down on recent days and less than half Monday's figure. It shifted down to £700m later, the bulk of it representing exchequer transactions. The Bank rolled over the shortage into next week by taking £637m of short-term band 1 bank bills at 9⅞ per cent. It later bought a further £50m of the same paper at the same rate.

● In the French money markets, call money continued to be under upward pressure from an income tax payment deadline that has drained bank balances, and rose ⅛ to straddle 10 per cent, the level the Bank of France has set as an informal ceiling in recent months. Three-month funds were unaltered at 10⅛ per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 23) 3 months US dollars		6 months US Dollars	
bid 3⅞	offer 4	bid 4	offer 4⅛

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm					
Prime rate	6½	One month	3.49	Three year	5.51
Broker loan rate	6	Two month	3.68	Five year	6.46
Fed.funds	3⅞	Three month	3.76	Seven year	6.85
Fed.funds at intervention	3⅞	Six month	3.92	10-year	7.24
		One year	4.18	30-year	7.85
		Two year	5.02		

June 23	Overnight	One Month	Two Months	Three Months	Six Months	Lombard intervention
Frankfurt	9.60-9.70	9.60-9.70	9.65-9.75	9.65-9.75	9.65-9.75	9.75
Paris	9⅞-10⅛	9⅞-10⅛	10-10⅛	10-10⅛	9⅞-10⅛	9.60
Zurich	7⅞-8⅛	9-9⅛	-	9-9⅛	-	-
Amsterdam	8.25-8.40	9.43-9.50	-	9.43-9.50	-	-
Tokyo	4⅞-4⅞	[illegible]	-	-	-	-
Milan	13⅛-13⅞	[illegible]	-	13⅞-14	-	-
Brussels	9⅞-9⅞	9⅞-9⅞	-	9⅞-9⅞	-	-
Dublin	9⅞-10	10-10⅛	10-10⅛	10-10⅛	10-10⅛	-

LONDON MONEY RATES

Jun 23	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	10⅛	10⅛	10⅛	10⅛	10	10
Interbank Bid	7½	9⅞	9⅞	9⅞	9⅞	9⅞
Sterling CDs	-	-	10⅛	9⅞	9⅞	9⅞
Local Authority Deps.	10⅛	10⅛	10	9⅞	9⅞	9⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	8⅞	9⅞	-	-	-	-
Company Deposits	-	-	10⅛	10	10	10
Finance House Deposits	-	-	9⅞	9⅞	9⅞	9⅞
Treasury Bills (Buy)	-	-	9⅞	9⅞	9⅞	-
Bank Bills (Buy)	-	-	9⅞	9⅞	9⅞	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.74	3.79	3.94	4.33
SDR Linked Dep. Offer	-	-	6⅛	6⅛	6⅛	6⅛
SDR Linked Dep. Bid	-	-	6⅛	6⅛	6⅛	6⅛
ECU Linked Dep. Offer	-	-	10⅛	10⅛	10½	10⅛
ECU Linked Dep. Bid	-	-	10⅛	10⅛	10⅜	10⅛

Treasury Bills (sell), one-month 9½ per cent; three months 9⅞ per cent; six months 9⅛ per cent; Bank Bills (sell): one-month 9⅞ per cent; three months 9⅞ per cent; Treasury Bills: Average tender rate of discount 9.3837 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day May 29, 1992. Agreed rates for period June 24, 1992 to July 225, 1992, Scheme I: 11.34 p.c., Schemes II & III: 11.35 p.c. Reference rate for period May 1, 1992 to May 29, 1992, Scheme IV&V: 10.122 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10½ from June 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent; one-three months 9½ per cent; three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent; Under £100,000 7 per cent from Sept 5, 1991. Deposits withdrawn for cash 5 per cent.

MONEY MARKET FUNDS

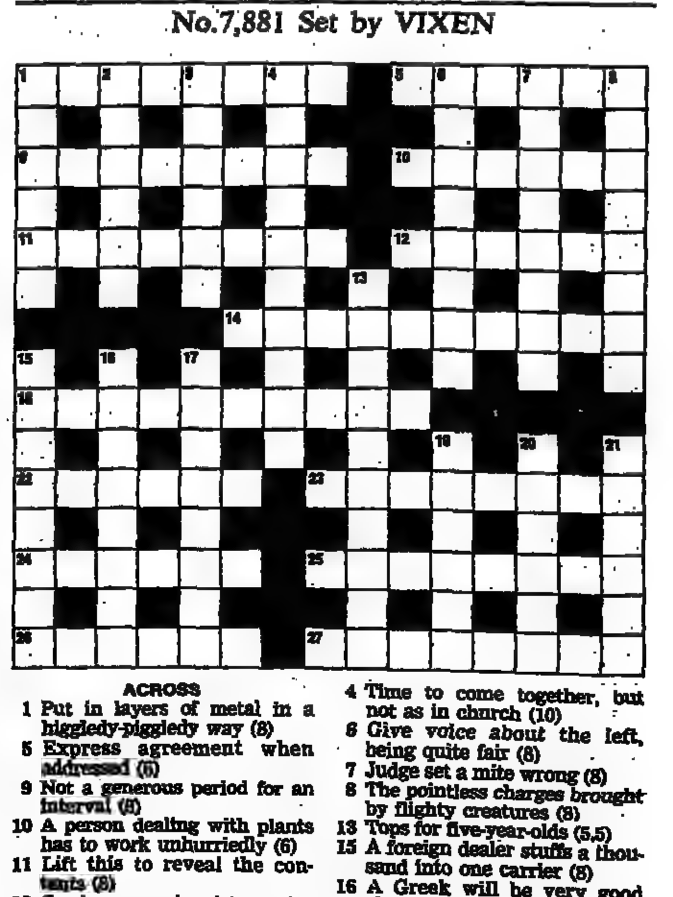
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,881 Set by VIXEN



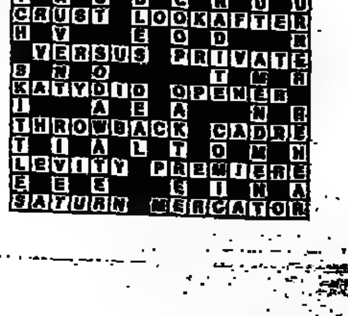
ACROSS

1 Put in layers of metal in a higgledy-piggledy way (8)
5 Express agreement when addressed (6)
9 Not a generous period for an interval (8)
10 A person dealing with plants has to work unhurriedly (6)
11 Lift this to reveal the contents (8)
12 Good man, a chemist, creates an impression (6)
14 Figure there are always strings attached (10)
18 Still having had no proposal? (10)
22 Silly dope accepting a letter which is unsealed (6)
23 Bill the junior minister is absolutely right (8)
24 Start boasting within the hearing of certain people (6)
25 It's top gear for the Spanish woman! (8)
26 The more disagreeable serving man? (6)
27 Set against the new sergeant (8)

DOWN

1 Flexible section of a gun-carriage (6)
2 Made complaint. It could make one mad! (6)
3 A man engaged in modernisation – a thankless job (6)
4 Time to come together, but not as in church (10)
6 Give voice about the left, being quite fair (8)
7 Judge set a mite wrong (8)
8 The pointless charges brought by flighty creatures (8)
13 Tops for five-year-olds (5,5)
15 A foreign dealer stuffs a thousand into one carrier (8)
16 A Greek will be very good about next article (8)
17 Fashion class that's not going to extremes (8)
19 A club providing parking say (8)
20 Everything planted in boggy ground toppled over (6)
21 Feast given by royal egghead (6)

Solution to Puzzle No.7,880



WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · ITALY · SOUTH AFRICA · JAPAN · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE

CANADA

TORONTO

4:00 pm prices June 23

MONTREAL

4:00 pm prices June 23

INDICES

NEW YORK

DOW JONES	Jun 23	Jun 22	Jun 19	Jun 18	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	[illegible]	[illegible]	[illegible]	3274.12	3413.21 (1/6)	87.76 (18/6)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	99.98	99.88	100.15	100.01	100.17 (19/5)	98.41 (20/3)	100.17 (19/5/92)	54.99 (1/10/81)
Transport	1288.30	1295.03	1303.44	1304.00	1467.68 (20/2)	1288.30 (23/6)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	213.07	212.65	213.51	212.89	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

(♦Day's High 3312.10 (3298.19) Low 3263.42 (3242.28))

STANDARD AND POOR'S

	Jun 23	Jun 22	Jun 19	Jun 18	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	404.04	403.40	403.67	400.96	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	476.14	475.57	475.78	472.39	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	34.57	34.21	34.31	34.15	35.80 (13/5)	32.40 (8/4)	35.80 (13/5/92)	8.64 (1/10/74)
NYSE Composite	221.99	221.56	221.96	220.61	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (28/4/42)
Amex Mkt. Value	376.74	375.62	379.39	377.49	418.99 (12/2)	375.62 (22/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	553.36	549.73	554.20	549.17	644.92 (12/2)	549.17 (18/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Jun 19	Jun 12	Jun 5	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.03	2.99	3.07

	Jun 17	Jun 10	Jun 3	year ago (approx.)
S & P Industrial div. yield	2.72	2.69	2.63	2.74
S & P Ind. P/E ratio	28.03	28.44	28.96	19.24

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Amer T & T	7,154,500	42¼	+ ¼
Telefonos	3,328,000	44¼	- ¼
Merck	3,197,100	49¾	- 1¼
Federal Home	2,963,900	36¼	+ 1¼
Disney (Walt)	2,349,500	35	- 1¼
Advanced Micro	2,139,400	9¼	- ¼
IBM	2,082,000	95¾	+ ¼
Glaxo	1,946,800	26	....
Unisys	1,893,000	8¼	+ ¼
Citicorp	1,795,500	20¼	+ ¼

TRADING ACTIVITY

† Volume (Millions)	Jun 23	Jun 22	Jun 19
New York SE	189.170	169.340	253.440
Amex	11.339	9.236	11.289
NASDAQ	(a)	151.192	177.568
NYSE			
Issues Traded	2,282	2,271	2,270
Rises	990	603	1,010
Falls	732	1,143	704
Unchanged	560	525	556
New Highs	20	22	27
New Lows	42	75	47

CANADA

TORONTO	Jun 23	Jun 22	Jun 19	Jun 18	1992 HIGH	1992 LOW
Metals & Minerals	3095.19	3095.46	3101.27	3088.12	3238.87 (16/1)	2828.26 (8/4)
Composite	3343.00	3340.66	3350.89	3357.17	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1763.30	1758.26	1760.97	1762.95	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

AUSTRALIA: All Ordinaries (1/1/80); All Mining (1/1/80) · AUSTRIA: Credit Aktien (30/12/84); Traded Index (2/1/91) · BELGIUM: BEL20 (1/1/91) · DENMARK: Copenhagen SE (3/1/83) · FINLAND: HEX General (28/12/90) · FRANCE: CAC General (31/12/82); CAC 40 (31/12/87) · GERMANY: FAZ Aktien (31/12/58); Commerzbank (1/12/53); DAX (30/12/87) · HONG KONG: Hang Seng Bank (31/7/64) · IRELAND: ISEQ Overall (4/1/88) · ITALY: Banca Com. Ital. (1972); MIB General (2/1/92) · JAPAN: Nikkei (16/5/49); Tokyo SE (Topix) (4/1/68); 2nd Section (4/1/68) · MALAYSIA: KLSE Composite (4/4/86) · NETHERLANDS: CBS Ttl.Rtn.Gen.(End 1983); CBS All Shr (End 1983) · NORWAY: Oslo SE (Ind) (2/1/83) · PHILIPPINES: Manila Comp (2/1/85) · SINGAPORE: SES All-Singapore (2/4/75) · SOUTH AFRICA: JSE Gold (28/9/78); JSE Industrial (28/9/78) · SOUTH KOREA**: Korea Comp Ex. (4/1/80) · SPAIN: Madrid SE (30/12/85) · SWEDEN: Affarsvarlden Gen. (1/2/37) · SWITZERLAND: Swiss Bank Ind. (31/12/58); SBC General (1/4/87) · TAIWAN**: Weighted Price (30/6/66) · THAILAND: Bangk SET (30/4/75) · WORLD: M.S. Capital Intl.(1/1/70) (t) · Euro Top-100 (26/6/90)

**Saturday June 20: Taiwan Weighted Price: [illegible] ♦ Subject to official recalculation. † Correction. Base values of all indices are 100 except: Austria [illegible] and DAX – 1,000, JSE Gold – 255.7, JSE 25 [illegible] Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday 23 June 1992

	Stocks Traded	Closing Prices	Change on day
Meiji Milk Prod	8.1m	1,010	+19
Toshiba Corp	3.7m	592	-8
Daikyo Kanko	2.7m	678	+6
Morinaga Milk	2.4m	654	-4
Nomura Sec	2.4m	1,230	-10
Snow Brand Milk	2.1m	806	[illegible]
Sanyo-Kokusaku	2.0m	550	[illegible]
Nippon Steel	1.8m	289	[illegible]
Chiyoda Corp	1.7m	1,810	[illegible]
Tokyo Theatres	1.7m	388	[illegible]

4:00 pm prices June 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	11⅞	AAR Corp	0.48	4.0	14	268	12¼	d11⅞	12⅛	+⅛
36	18½	A L Labs A x	0.18	1.0	74	1221	19¼	18⅝	18⅝	-⅛
69¾	56	AMP Inc	1.52	2.6	23	1376	58	57⅞	58	
80¼	60⅞	AMR			18	74539	64⅞	63⅝	63¾	-¼
2⅞	1⅛	ARX			2	z100	1⅛	1⅛	1⅛	
63½	39⅝	ASA	2.00	5.0	11	475	41	40⅛	40⅛	-⅝
34¼	26⅞	Abbott Lab	0.60	2.1	21	12481	28⅛	28⅛	28¼	-⅜
13⅞	12	Abitibi Pr	0.50	3.8	9	196	13	13	13	-⅛
11⅞	10¼	ACM Gvt In	0.96	8.7		121	11	10⅞	11	
10⅞	9⅛	ACM GvOpp	0.80	8.3		64	9⅞	9⅝	9⅝	
9½	8½	ACM Gvt Sp	0.80	8.6		367	9¼	9⅛	9¼	+⅛
11¼	10⅛	ACM Gvt Sp x	1.13	10.6		341	10⅞	10⅝	10⅝	
9⅝	8⅝	ACM Man	0.95	10.0		81	9½	9¼	9½	+⅛
12⅞	10⅝	ACM Managd	1.08	9.5		197	11⅞	11⅛	11⅛	-⅛
11¼	6¼	Acme Cleve	0.40	6.4	25	19	7½	7⅜	7⅜	
8¼	4⅞	Acme Elect			4	5	4½	4½	4½	
33¼	18⅞	Acuson			12	727	20½	20¼	20⅜	+⅛
19½	18⅛	Adams Expr	0.48	2.6	0	107	18⅝	18½	18½	-⅛
49⅛	29½	Ad Micro	3.00	9.7		1405	31⅞	30⅞	31	-⅛
21½	8¼	Ad Micro P	3.00	32.9	3	1078	9⅞	9	9⅛	-⅜
9⅛	5	Advest Grp	0.16	2.6	61	137	6⅛	5⅞	6⅛	+⅛
38	33	Aegon ADR	1.68	4.9	6	4	34⅝	34½	34½	+⅛
47	38⅜	Aetna Li	2.76	6.7	7	1671	41¼	40⅛	41	+⅛
12	8⅜	Affil A	0.24	2.3	11	230	10½	10¼	10⅜	+⅛
32⅞	24	Aflac	0.44	1.5	15	1619	29½	28⅞	29⅛	
19⅝	15⅛	Ahmanson	0.88	5.4	7	1796	16⅜	16⅛	16⅜	+⅛
22½	5¼	Aileen Inc			7	167	7⅞	6⅞	7⅛	+⅛
49½	38½	Air Pr Chm	0.88	2.1	17	2622	42⅜	41¼	41⅝	-⅜
[illegible]										

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

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- J -

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- N -

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- P - Q -

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- R -

[illegible]

- S -

21 16⅞ S Anita Rt 1.72 8.7 19 57 18 17⅞ 17⅞ [illegible]

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
18⅞	15¼	SCOR US Cp	0.28	1.6	9	36	16	15⅞	16	+⅛
29½	23¼	SPS Techno x	1.28	5.2	20	10	24½	24½	24⅝	
13½	12⅛	Sabine-Rt x	1.32	10.0	9	67	13¼	13	13⅛	
11⅞	9	Salecard	0.16	1.5	12	109	9⅞	9⅝	9⅞	+⅛
16	11¼	Salég'd Sc			6	40	12½	12⅞	12½	−⅛
30⅞	22⅞	SafetyKlsn	0.24	7.2	31	605	28½	28⅛	28¼	
22¼	11⅝	Safeway			21	846	12⅝	12⅞	12½	
4⅞	2¼	SafewayWI6				72	2⅝	2⅝	2⅝	
41⅞	29⅞	StJoePapr x	0.20	0.5	37	28	37¼	37⅞	37½	−⅛
34¼	30¼	StJosLRP	1.72	5.4	14	14	32	31¾	32	+⅛
75¾	66½	St Paul's	2.72	3.6	6	344	74¾	73½	74¾	+⅞
8⅞	2⅞	Salant Crp			1	20	5½	5½	5½	
76⅛	59	Sallie Mae	1.00	1.6	17	1071	63⅝	62¼	63⅝	+1⅛
14¾	13	Salomon Br	0.60	4.4		311	13⅝	13½	13⅝	
34⅛	28¼	Salomon Inc x	0.64	2.0	10	1584	32½	32	32½	+⅛
23½	21¼	SanDgo G&E	1.44	6.3	12	663	23	22⅞	23	
3⅝	2⅛	SantaFeEDu	0.40	13.9	15	72	3	2⅞	2⅞	−⅛
9¼	7	SantaFeERs	0.16	1.9	2061	403	8¼	8⅛	8¼	+⅛
36⅝	30¼	SantaFePac	2.60	8.0	10	46	34¾	34½	34¾	+¼
14⅛	11	SantaFeSth				203411	12½	12⅛	12⅛	−⅛
57	45⅞	Sara Lee	1.00	2.0	16	3470	49¼	48¼	49¼	+1
9½	1¼	Savin				6	100	1⅝	1½	1½	−⅛
44⅛	38⅞	Scana Corp	2.66	6.6	12	166	40⅞	40⅜	40⅞	+⅛
47⅞	40¼	Scecorp	2.72	5.9	13	5330	46⅛	46	46⅛	
68	49⅞	SchoringPl	1.88	2.9	17	7831	64⅞	63¼	64½	+1⅛
69⅞	52¼	Sch'berger	1.20	1.8	19	2195	64⅞	64¼	64⅝	−⅛
37⅞	20⅞	Schwab(C)	0.24	1.1	12	3078	23	22	22⅝	+⅞
10⅝	6¼	Schwitzer			40	13	7⅞	7⅞	7⅞	+¼
24	15¼	ScientAtln	0.16	0.7	146	586	22¼	21⅞	22	+⅛
10⅝	7⅛	Scotsman	0.10	1.1	58	z100	8⅝	8⅝	8⅝	
48	34½	ScottPaper	0.80	2.1	62	1847	38⅞	37⅞	38¾	+⅞
17½	13⅝	ScuddrNAsF	0.16	1.1		21	16⅝	15⅞	16⅛	+⅛
18⅛	11	Tandem				172583				
31¼	24	Tandy Corp	0.60	2.4	11	359				
13⅛	11⅞	Taurus Mun x	0.92	7.4		22				
41½	36	Teco Energ	1.82	4.8	15	254				
22⅞	16½	Tektronix	0.60	3.2	19	145				

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
53½	50½	Xerox pf.125				2	52¾	52¼	53	+1
28½	24⅞	Xtra 1.94	1.94	7.2		12	27	26⅞	27	−⅛
37	28½	Xtra Corp	0.80	2.4	12	44	33⅝	33¼	33⅝	−⅛
27	25¼	Yankee Egy	1.56	6.3	12	13	25⅞	25⅛	25¼	+⅛
1⅞	½	Zapata				46	389	⅞	⅞	⅞	−⅛
11⅝	6¾	ZenithElec			3	831	7⅛	7	7	
18⅝	14½	Zenith Nat	1.00	5.5	8	41	18⅛	17⅞	18⅛	+⅛
7⅞	6	Zenix Inc x	0.82	12.4		119	6⅞	6⅝	6⅝	−⅛
13⅛	10⅞	Zero Corp	0.40	3.6	17	156	11¼	11	11	−⅛
36	28	Zurn Ind x	0.88	3.0	31	157	29¼	28⅞	28⅞	−⅛
14⅛	12	Zweig Fund	1.16	9.5		186	12⅞	12¾	12¾	
11	9½	Zweig Total	1.00	10.2		1070	9⅞	9¾	9⅞	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Italic figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices June 23

NASDAQ NATIONAL MARKET

4:00 pm prices June 23

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		21	552	19¼	18¾	19¼	+⅛
Xoma Corp		7	2077	13¾	13	13¾	+⅛
Yellow Fr	0.94	20	3208	25⅛	d23½	25¼	+1⅛
York Rsch		5	1610	5½	4⅞	5⅜	+⅜
ZionsUtah	1.44	10	3	54	52	52	−2

AMERICA

Dow stages mild rally on the back of Tokyo

Wall Street

AIDED BY a moderate recovery in Tokyo overnight, US prices managed a slight improvement yesterday following their recent weak performance, *writes Patrick Harverson in New York.*

At the close the Dow Jones Industrial Average was up 4.82 at 3,285.62, while the more broadly based Standard & Poor's 500 edged ahead 0.65 to 404.05. The American SE composite gained 1.12 to 376.74 and the Nasdaq composite put on 3.63 to 553.35.

Turnover on the New York SE amoounted to 190m shares, with rises outnumbering declines by 987 to 732.

Two factors were behind a positive opening: the rebound in Japanese share prices which helped assuage fears of a sustained decline in worldwide equity markets; and the resilience displayed by US stocks on Monday afternoon, when late buying cut the Dow's initial loss of 30 points to just under five points by the close.

The underlying tone of the market, however, remained weak due to concern about how long it will take for corporate earnings to show signs of significant improvement amid a worryingly slow economic recovery.

Merck fell $1⅛ to $49⅞ in turnover of 2.1m shares on reports that some analysts believe the company could face problems in marketing its new prostate drug, which only received approval from the US Food and Drug Administration last Friday.

Goodyear advanced $2¼ to $67 after shareholders of Goodyear Canada voted against approving the merger of their company with a Goodyear subsidiary, GCI Amalgamation. The offer, worth C$48 a share, was withdrawn following the vote.

Nacco Industries dropped $5⅝ to $46¼ after the company warned that its net income for the second quarter would be "well below" the 53 cents a share earned at the same stage a year ago.

Another company telling the market that its forthcoming quarterly earnings would be down sharply from last year's levels was the oil recycling and waste management group International Recovery, which plunged $6⅝, or 35 per cent, to $12⅝ in the wake of the management's warning.

Keithley Instruments, traded on the American Stock Exchange, weakened $1¼ to $11⅛ following an announcement that it will report a loss in the fiscal third quarter, and that the company was "cautious" about the outlook for the rest of the year.

Pet Inc gained $⅝ to $15⅝ after broker Wertheim Schroder put the stock on its recommended list and advised that the specialist food and confectionery company could be an attractive takeover target.

On the Nasdaq market, Vestar retreated $1¼ to $11¼ in busy trading after Liposome filed a lawsuit against Vestar alleging its Ambisome product violated a Liposome patent. Liposome firmed $⅛ to $8¾.

Canada

TORONTO stocks drifted off from midday gains to end flat after a dull session. Traders said there was little corporate news or economic data to sway the market. A heavy number of small capitalisation shares crowded the most active list.

The TSE 300 index closed just 2.4 better at 3,343.0, while declines held a small advantage over advances by 294 to 276 after volume of 24.3m shares valued at C$234.6m.

EUROPE

M3 data take Frankfurt off day's high

GERMAN equities came off the day's highs after disappointing money supply data for May, *writes Our Markets Staff.*

FRANKFURT gave up early gains to end unchanged; worse-than-expected M3 money supply figures for May, showing an annualised increase of 9.0 per cent, cast a shadow over trade, but dealers said that their impact was muted.

The DAX index ended just 0.50 higher at 1,771.14 after a pre-bourse high of about 1,782, and the FAZ gained 0.75 to 704.87. Turnover rose from DM4.4bn to DM4.7bn.

There was some action in second-line stocks, where AEG ended DM4.40 up at DM191.50 after forecasting that 1992 sales will rise by more than 10 per cent, and agreeing a white goods pact with Sweden's Electrolux. The fashion group Escada, under heavy pressure recently, recovered DM19.50 to DM232.

In steels, Hoesch went ex dividend and fell a net DM5.50 to DM277.50; interest moved to Klöckner-Werke, DM2.40 higher at DM121.50, and Thyssen, DM3.20 better at DM239.30.

PARIS was quietly firmer on the final day of the trading account, as the CAC 40 index added 10.03 to 1,895.80 in turnover of FFr2.4bn.

Among blue chips, Total slipped FFr3.90 to FFr232.10 while Alacatel added FFr7 to FFr629 and Michelin put on FFr5.20 to FFr196.70. Lyonnaise-Dumez, which denied a report that it was in talks with Fiat about the possible purchase of Fiat's Cogefar Impresit construction subsidiary, slipped FFr8 to FFr514.

MILAN drifted as yet another fault in the screen-based trading system put it out of operation for the first 1½ hours of trading, causing some confusion among dealers regarding opening prices.

Continued upward pressure on interest rates and the wait for the new government to be announced also kept investors on the sidelines. The Comit index fell 1.88 to 472.69 in turnover estimated at L80bn after L72.7bn.

Fiat was about the only big stock to attract interest but it failed to break above L5,500. The stock added L28 to L5,480.

ZURICH was mostly flat but Sandoz, the pharmaceuticals, chemicals and niche nutrition stock, rose SFr80 to SFr2,950 as the SMI index gained a mere 0.2 to 1,847.1.

On Monday, Sandoz's arguments for its DHE-45 headache pain injection left Glaxo, with an expensive competing product, at a new 1992 low in the London market. Mr Jonathan Spink of Williams de Broë said that the Swiss company was still benefitting from a meeting with UK fund managers and analysts earlier this month, at which it said it would review its accounting procedures and cut its depreciation charges.

OSLO finally broke a run of 15 lower closes in a row, the all-share index rising 7.49, or 1.8 per cent to 416.85.

Shipping and industrial stocks recorded the biggest gains, Norsk Hydro and Bergesen A each ending NKr1.5 higher, at NKr160.5 and NKr95 respectively. Oslo has been gloomy about weak corporate earnings, doubts about Norway's future ties to the European Community and high domestic interest rates.

STOCKHOLM saw late buying lift prices off midday lows, the Affärsvärlden general index rising 1.7 to 926.4 in turnover of SKr436m after SKr656m.

Astra A and B shares both dropped SKr7 to SKr536 and SKr516 respectively while the banking and financial sector index surged 3.1 per cent. Handelsbanken jumped SKr2 to SKr54 while SE Banken eased SKr0.5 to SKr33.0.

COPENHAGEN featured Baltica, *writes Hilary Barnes*, up DKr15 to DKr473 on a forecast staff reduction of 10 per cent over the next two years.

Danisco, which fell DKr25 on Tuesday, jumped DKr31 to DKr764 when it was announced that the group is negotiating to take over the sugar production facilities of Sweden's Procordia. The All Share Index closed 0.34 down at 316.58.

HELSINKI bounced off Monday's low for the year, helped by gains in Repola which reported better-than-expected results for the first four months of 1992. The Hex index closed 10.3, or 1.4 per cent higher at 768.9.

Repola's restricted shares rose FM2 to FM42 after a return to profit, and the bank and finance house index, which fell sharply last week, rose by 3.4 per cent.

BRUSSELS gained slightly on the first day of the new account. The Bel-20 index edged up 1.03 to 1,173.48 in turnover of BFr626m.

Delhaize rose BFr20 to BFr1,680 with 43,600 shares traded. VIENNA's ATX index fell 2.86 to 956.63 with Vienna Airport shares gaining Sch13 to Sch399. MADRID's general index lost 2.71 to 243.70.

FT-SE Eurotrack 100 - Jun 23

Hourly changes

Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1149.50	1148.75	1148.99	1148.63	1148.78	1149.15	1148.98	1148.49

Day's High 1150.62 Day's Low 1148.16

Jun 22	Jun 19	Jun 18	Jun 17	Jun 16
1148.77	1154.66	1145.88†	1150.46	1165.38

Base value 1000 (26/10/90). † Partial.

ASIA PACIFIC

Nikkei rebounds by 1.2 per cent in thin trade

Tokyo

SHORT-COVERING of positions and small-lot bargain hunting took the Nikkei average back above the 16,000 level yesterday, *writes Emiko Terazono in Tokyo.*

The Nikkei gained 185.77, or 1.2 per cent, to 16,106.99 in a thin market after a day's low of 15,860.90 and high of 16,215.38, share prices fluctuating on movements in the futures markets.

Volume declined from 244m shares to 220m. In spite of the rise in the Nikkei, falls led advances by 489 to 448, with 177 issues unchanged. The Topix index of all first section stocks picked up 7.03 to 1,247.21, and in London the ISE/Nikkei 50 index edged ahead 0.59 to 976.18.

Reports that the government was considering the allocation of Y5,000bn to a supplementary budget prompted dealers to cover short positions in the futures market.

The government is expected to announce a fiscal or monetary stimulus to support the sluggish economy ahead of the G7 summit meeting next month. However, market participants also seem to be worried that politicians might be paying lip service to the idea, or that the figures involved could be speculative.

Daiwa Securities said that as long as domestic institutions did not come back into the market, a rise in share prices would be unlikely. "The problem is that nobody feels the urgency to buy now," added a Daiwa analyst.

High-technology blue chips, however, were sought by trust banks and foreign investors. NEC put on Y6 to Y820 and Matsushita Electric Industrial Y10 to Y1,290, although Toshiba shed Y6 to Y592 as some institutional investors liquidated holdings.

Real estate issues rebounded, some investors believing that the sector was oversold. Daikyo gained Y5 to Y675, rising for the first time in eight trading days, and Mitsubishi Estate firmed Y4 to Y745.

Steels, previously sold on earnings worries, gained ground. Nippon Steel rallied Y6 to Y269 and NKK Y8 to Y249.

Short-term trading moved up some speculative theme stocks. Meiji Milk, the most active issue of the day, advanced Y19 to Y1,010 and Snow Brand Milk Y15 to Y808.

In Osaka, the OSE average improved 45.39 to 19,045.91 in volume of 12.4m shares.

Roundup

THE BOUNCE in Tokyo failed to have much effect on other markets in the Pacific Basin.

HONG KONG moved forward for a second consecutive day, as a wave of afternoon buying buried earlier losses. The Hang Seng index shot up 77.92, the biggest gain in more than three weeks, to 5,897.86 as turnover grew to HK$2.99bn from HK$2.73bn.

NEW ZEALAND finished broadly lower as the recent jitters on the Tokyo stock market again kept buyers on the sidelines. The approaching July 2 announcement of the government's annual budget is also having its traditional dampening effect on the market. The NZSE-40 index closed 14.17 down at 1,516.36 and turnover eased to NZ$21.3m (NZ$23.9m).

Brierley Investments lost 3 cents to 96 cents in volume of 4.2m, the most active issue in the market. There have been rumours that it is planning to sell some or all of its 16 per cent stake in Carter Holt Harvey to International Paper, of the US, which already owns an equal stake in CHH.

TAIWAN declined in active trading as strong early gains were eroded by steady selling pressure. The weighted index dipped 7.18 to 4,690.48 in turnover of T$61.5bn (T$49.2bn).

AUSTRALIA's All Ordinaries index added 7.6 at 1,643.9 in turnover of A$266m, after A$175m, as some large lines of shares were dealt on the market. Gold mining issues rose in line with an increase in the bullion price.

MANILA tumbled on profit-taking after news that the Philippine Congress late on Monday had proclaimed Mr Fidel Ramos, the former defence secretary, as the next president. The composite index dropped 65.68 to 1,453.86 in turnover of 190m pesos, after 245m.

The $2⅜ fall to $35⅝ in PLDT in overnight US trading caused other commercial and industrial issues to decline.

KUALA LUMPUR ended mixed after light trading. The composite index was off 0.53 at 593.52. In SINGAPORE, shares closed little changed as cautious sentiment kept most investors away. The Straits Times Industrial index firmed 1.86 to 1,490.64. Turnover rose to S$144.6m from S$78.6m.

Activity centred on the re-listed Goldtron, formerly Gold Coin, which was taken over by Acma Holdings. Some 98.2m shares were traded, the majority of which were said to be placed by Acma. Blocks were traded at between 59.4 and 68 cents a share.

DHAKA extended its upward trend in heavy trading, encouraged by the Bangladesh government's decision to waive gains tax on shares and securities from July 1. The all-share index climbed 5.2 to 347.7.

SOUTH AFRICA

JOHANNESBURG stabilised following Monday's steep falls. The industrial index closed 7 down at 4,463 and the gold index was also off 7 at 1,136. The overall index shed 3 to 3,634. Charter led gains in the mining sector, up R1 to R38.

Seoul's revival hindered by economic problems

John Burton reports on the ailing equity market

The South Korean government's efforts to revive the ailing Seoul stock market are a study in frustration. The index has tumbled by more than 40 per cent in the past three years and on Monday sank to its lowest closing level in almost five years. Since the beginning of the year it has declined by 8.6 per cent, ending yesterday at 559.

Indeed, the recent plunge would have been even steeper if the government's stock market stabilisation fund had not intervened. But the fund may prove less effective in breaking future falls since its reserves have dwindled to less than Won300bn ($380m) out of its original Won5,000bn budget. Some analysts are now forecasting that the index will decline a further 10 per cent in coming weeks to around the 500 mark.

The chief economic adviser to President Roh Tae Woo is now recommending that the government abandons further efforts to boost the market, although the Ministry of Finance favours continued intervention.

The issue is a sensitive one in an election year since the government worries about decreased support among middle-class voters if the market does not recover.

The government had hoped that its $4.1bn rescue in late May of three troubled investment trust companies used by 1m small investors would encourage them to return to the market. Declining interest among individuals, who account for more than 50 per cent of share ownership, has caused trading volume to be halved in June.

Moreover, foreign interest is on the wane. The opening of the market at the beginning of the year to direct foreign investment briefly led to an equity rally in January and February. After reaching a peak of 691 the index gradually receded and foreign buying now stands at only 30 per cent of the January level.

One of the reasons has been the 10 per cent limit placed on foreign ownership of shares. The authorities have responded by lifting the ceiling to 25 per cent from next week.

In a further attempt to attract more foreign money, the government has also announced that foreigners will be able to acquire an 8 per cent holding in either Pohang Iron & Steel or Korea Electric Power Corporation. Together the two companies account for almost 13 per cent of total market capitalisation.

These actions, however, do not go to the heart of the problems: a declining confidence in the economy and the uncertain political situation.

Economic growth is slowing, causing a spate of bankruptcies, including 15 listed concerns so far this year. Corporate earnings have fallen to a 10-year low, while inflation remains high.

The political outlook is clouded with the possibility that as many as five candidates will stand in December's presidential election. The front-runner, Mr Kim Young Sam of the ruling Democratic Liberal Party, could face an uncooperative parliament if he is elected, further weakening the government's ability to solve the economic problems.

With interest rates at 17 per cent, domestic investors prefer the better yields offered by the corporate bond market. Liquidity has also been squeezed by the fall in land prices.

Most analysts believe that the market will not stage a recovery for another three to six months.

Optimists argue, however, that the general share index, which is weighted towards large capitalised companies, does not tell the whole story of the market's performance this year. Equity prices for small and medium-sized companies have risen about 30 per cent, led by the foreigners' hunt for bargains. But there are signs that interest in these shares is also tapering off as their price/earnings ratios climb.

Mr Duke Shin, an analyst with Baring Securities, says: "The market could turn around with a perceived improvement in economic fundamentals."

There are signs that this is happening, with the likelihood that the economic slowdown and a tight monetary policy will lead to reduced interest rates by the year-end.

Analysts, however, still worry that a rally could be cut short around the 800 level as institutional investors, including the stabilisation fund and the investment trusts, unload extensive share portfolios in an attempt to improve their financial position.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

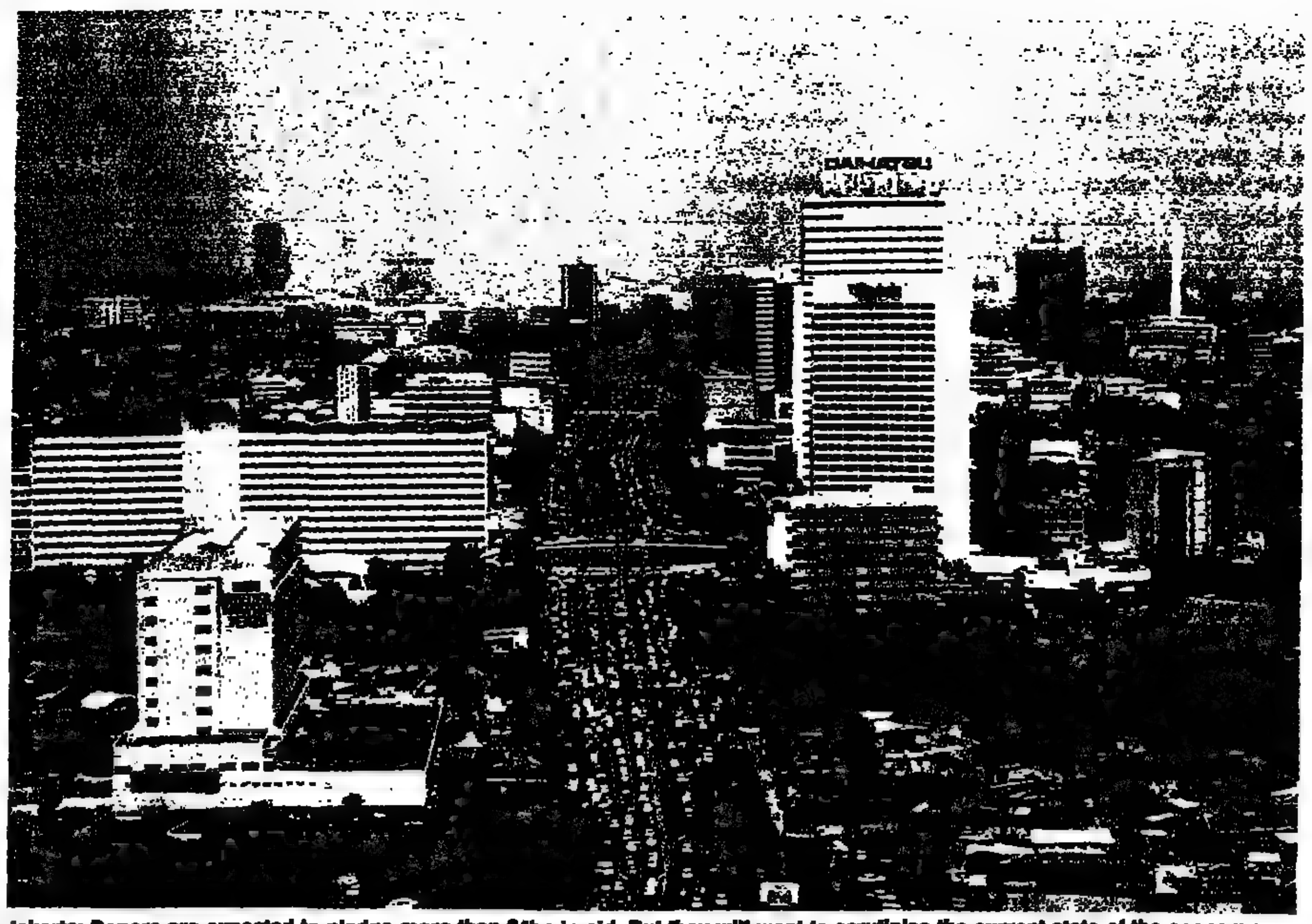
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JUNE 23 1992 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 22 1992 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1992 High	1992 Low	Year ago (approx)
Australia (69)	147.70	+0.8	117.51	116.76	120.21	130.68	+0.4	4.18	146.57	116.74	117.71	119.34	130.00	153.68	140.94	139.17
Austria (19)	170.15	−0.1	135.39	136.84	139.51	138.26	−0.3	2.11	170.30	135.63	136.77	138.65	138.70	188.70	162.48	188.74
Belgium (46)	140.82	−0.4	112.04	113.22	114.81	112.00	−0.4	5.45	141.32	112.56	113.49	115.06	112.40	146.19	135.87	125.94
Canada (115)	124.51	+0.2	99.06	100.11	101.33	107.98	+0.3	3.40	124.32	99.01	99.83	101.21	107.57	142.12	124.32	139.00
Denmark (35)	232.85	+0.4	185.25	187.22	189.51	190.57	+0.2	1.87	231.99	184.77	186.32	188.88	190.11	273.94	226.81	239.95
Finland (15)	76.51	+2.2	60.87	61.52	62.27	68.34	+1.9	2.07	74.89	59.64	60.14	60.97	67.09	89.80	73.64	100.06
France (104)	159.75	+0.5	127.10	128.44	130.01	132.06	+0.4	3.54	159.03	126.66	127.71	129.46	131.53	168.75	148.06	127.04
Germany (65)	125.05	+0.1	99.49	100.56	101.77	101.77	+0.1	2.27	124.87	99.45	100.29	101.66	101.66	125.37	114.67	108.45
Hong Kong (55)	249.11	+1.4	198.19	200.29	202.76	247.29	+1.3	3.31	245.79	195.76	197.39	200.12	244.12	254.67	176.36	150.89
Ireland (16)	157.60	−0.5	125.38	126.72	128.27	130.24	−0.4	4.16	158.45	126.20	127.25	129.00	130.75	173.71	151.78	142.84
Italy (78)	70.26	−0.4	55.91	56.50	57.20	62.19	−0.3	3.36	70.56	56.20	56.67	57.45	62.38	80.86	68.39	74.11
Japan (473)	95.82	+0.6	76.23	77.04	78.00	77.04	+0.7	1.10	95.29	75.89	76.52	77.59	76.52	140.95	88.70	130.10
Malaysia (69)	239.74	+0.5	190.73	192.75	195.11	231.84	+0.4	2.73	238.51	189.96	191.54	194.18	231.02	250.18	212.49	235.74
Mexico (18)	1417.92	−4.1	1128.09	1140.06	1154.04	4832.21	−4.1	7.22	1478.90	1177.87	1187.71	1204.05	5040.84	1789.77	1376.91	974.35
Netherland (25)	160.36	+0.3	127.58	128.94	130.52	129.07	+0.3	4.34	159.90	127.35	128.42	130.19	128.74	165.22	147.88	133.14
New Zealand (14)	45.96	−1.2	36.56	36.95	37.41	44.81	−1.1	5.05	46.54	37.07	37.38	37.89	45.29	48.52	42.01	47.20
Norway (23)	177.01	+1.9	140.83	142.33	144.07	147.16	+1.8	1.72	173.74	138.38	139.53	141.46	144.50	192.95	161.26	192.41
Singapore (38)	222.13	+0.0	176.73	178.61	180.79	166.09	+0.2	2.00	222.07	176.87	178.35	180.80	165.79	229.63	192.76	195.35
South Africa (61)	217.34	−0.6	172.91	174.75	176.88	182.53	−0.9	2.83	218.71	174.19	175.64	178.06	182.99	263.60	203.18	226.40
Spain (50)	151.56	−1.3	120.58	121.87	123.35	113.27	−1.1	5.45	153.57	122.31	123.33	125.03	114.54	161.72	146.86	147.73
Sweden (27)	190.41	−0.5	151.49	153.11	154.98	159.41	−0.5	2.38	191.30	152.36	153.64	155.75	160.22	200.26	173.09	186.30
Switzerland (64)	107.26	+0.2	85.33	86.25	87.31	94.19	+0.3	2.28	107.03	85.24	85.96	87.15	93.89	109.43	95.99	89.18
United Kingdom (227)	191.32	+0.5	152.21	153.81	155.70	152.21	+0.4	4.90	190.42	151.66	152.91	155.02	151.66	200.07	165.26	160.18
USA (522)	164.74	+0.2	131.07	132.47	134.09	164.74	+0.2	3.03	164.37	130.91	132.01	133.83	164.37	171.66	160.82	149.87
Europe (794)	152.27	+0.2	121.15	122.44	123.94	123.27	+0.2	3.98	151.93	121.01	122.02	123.70	123.04	156.88	139.31	131.39
Nordic (100)	175.79	+0.1	139.85	141.34	143.07	140.56	+0.0	2.12	175.59	139.85	141.02	142.96	140.51	188.52	169.66	179.89
Pacific Basin (718)	102.82	+0.6	81.81	82.68	83.69	83.72	+0.7	1.48	102.21	81.40	82.09	83.22	83.15	141.97	94.40	130.87
Euro - Pacific (1512)	122.81	+0.4	97.70	98.74	99.95	100.02	+0.4	2.71	122.30	97.41	98.21	99.57	99.59	145.21	113.60	131.40
North America (637)	162.22	+0.2	129.06	130.45	132.05	160.87	+0.2	3.05	161.86	128.91	130.00	131.80	160.51	169.69	158.70	149.10
Europe Ex. UK (567)	128.88	+0.0	102.53	103.64	104.92	106.51	+0.1	3.26	128.82	102.60	103.46	104.90	106.45	131.77	121.81	113.69
Pacific Ex. Japan (245)	171.66	+0.8	136.57	138.04	139.72	152.76	+0.7	3.51	170.22	135.57	136.73	138.60	151.70	175.31	149.00	138.26
World Ex. US (1706)	124.71	+0.3	99.22	100.28	101.50	102.35	+0.4	2.72	124.29	98.99	99.82	101.19	101.97	146.91	116.45	133.14
World Ex. UK (2001)	132.17	+0.3	105.16	106.28	107.58	118.43	+0.3	2.57	131.82	104.98	105.87	107.33	118.07	150.58	127.21	135.62
World Ex. So. Af. (2167)	136.70	+0.3	108.81	109.97	111.32	121.02	+0.3	2.85	136.35	108.59	109.51	111.02	120.64	153.05	130.04	137.20
World Ex. Japan (1755)	160.36	+0.2	127.58	128.95	130.54	147.25	+0.2	3.39	160.03	127.45	128.53	130.31	146.97	165.40	153.20	148.18
The World Index (2228)	137.27	+0.3	109.21	110.37	111.73	121.58	+0.3	2.85	136.87	109.01	109.92	111.44	121.20	153.70	130.66	137.79

Constituent change with effect 24/6/92: Addition: Sandvik A (Sweden).

INDONESIA

Will Indonesia's progress towards prosperity continue unabated? Will a political vacuum emerge after Suharto goes? The giant of south-east Asia faces a test both of its nationhood and its economic resilience. William Keeling reports

Mixed signs for future



Jakarta: Donors are expected to pledge more than $4bn in aid. But they will want to scrutinise the current state of the economy

PRESIDENT Suharto of Indonesia, in power since 1965 and one of the world's longest-serving leaders, must decide whether to stand for a sixth term of office in elections next March. His achievements in bringing political stability and economic growth have been immense.

Whether or not he decides to carry on, he will be aware that the country's next great challenge will be the transition from his rule.

Doubts are emerging about whether progress towards prosperity can continue unabated and whether a political vacuum will emerge when Mr Suharto goes.

There are fears that Mr Suharto's departure will remove the lid on simmering ethnic and religious tensions. Indonesia has about 300 ethnic groups and, though 90 per cent of the population is Moslem, there are significant Christian, Buddhist and Hindu minorities.

The time of reckoning is likely to be delayed for a further five years if, as expected, Mr Suharto stands for re-election. When it does come, much will depend on the groundwork being laid by the president.

Indonesia's size, as an archipelago of more than 13,000 islands stretching 3,200 miles east to west, makes it the giant of south-east Asia. The economy has grown rapidly, attracting considerable foreign investment in manufacturing industry.

A steady programme of deregulation has brought the economy to a watershed: a World Bank report published last month described Indonesia as ready "to become a solid middle-income country... by the *end of the decade*".

When Mr Suharto came to power following a failed communist coup, more than 70 per cent of the population lived in absolute poverty and the economy was hamstrung by 600 per cent inflation. Born in central Java in 1921, he began his career as a police officer before rising through the army to the rank of general.

His critics say he has run an authoritarian government, is unreceptive to criticism and ruthless to those he considers endanger national unity.

They argue that the parliamentary elections, held on June 9, were simply the affirmation of a *de facto* one-party state. The ruling Golkar party retained control with an estimated 67.5 per cent of the vote.

However, when questioned on Mr Suharto's economic legacy, even some ardent critics acknowledge the scale of his achievement.

His deft political skill was exemplified by his handling of the aftermath of last November's killing of at least 50 civilians in East Timor, the former Portuguese territory forcibly annexed by Indonesia in 1976.

He appeased the international community by criticising the army for its part in the atrocity. Then, in March, he pacified his domestic constituency by rejecting all aid from the Netherlands, the former colonial power which had been most outspoken over the East Timor incident and which chaired the long-standing donor forum.

Mr Suharto, asserting that Indonesia would not accept the linkage of aid to human rights, asked the World Bank to create a new donor consultative group without the Dutch. Donors meet in Paris next month and are expected to pledge more than $4bn in aid for the year ahead.

With up to $85bn of infrastructural development planned before the turn of the century – overstretched electric power and telephone networks are probably the greatest limitation to further economic expansion – Indonesia will require foreign aid flows for many years to come.

Before reaching into their wallets, however, donors will look closely at the economy. Indonesia has moved a long way from the centrally controlled model of former President Sukarno but old economic distortions remain and some new ones have appeared.

Rules on foreign investment have been relaxed and export-oriented industries have multiplied. Indonesia has benefited from investment from the group of more industrialised countries which it endeavours to join: Japan, Taiwan, South Korea and Singapore.

But some sectors of the domestic economy, particularly agriculture, remain highly regulated. Appeals for the government to ease controls have largely fallen on deaf ears. Political barriers to change appear to have blocked the gifted western-educated technocrats within the government who champion reform. Since the beginning of 1991 the situation has worsened with trade monopolies in cloves and oranges granted to two private companies led by sons of Mr Suharto.

The monopolies have highlighted the business interests of Mr Suharto's six children and have provided fuel to opponents who accuse the government of nepotism.

"The president and his wife are proud of their children's contribution to the economy," says one western ambassador, who notes that the president's children have helped to break the hold on the economy of the ethnic Chinese community, which numbers about 6m out of a total population of 183m.

Critics say Mr Suharto should restrain his children's commercial ambitions and withdraw the trade monopolies they enjoy. This has been accompanied by calls for greater government transparency and concern among economists that contracts for large public sector-related projects have sometimes gone to the highest bidder.

However, the record shows 20 consecutive years of economic growth of more than 6 per cent.

Exports excluding oil and gas have increased 171 per cent in the last five years to $17.6bn in 1991. Foreign investment approvals of $26.2bn in 1988-91 were twice the sum approved in the period 1969-87.

Even though there has been a concomitant rise in external debt and a worsening current account deficit forecast at $4.8bn this year, the economic gains have been impressive.

A surge in the Jakarta stock market following the election indicated that foreign investors find Indonesia increasingly attractive.

The lack of government accountability, however, cannot be so easily discounted. In the longer term it acts to heighten the political risk and raises the question of what dangers may await Indonesia in the post-Suharto era.

The signs for the future are mixed. Mr Suharto is slowly relinquishing some control – a 1966 decree granting him effective absolute power is to be revoked at his instigation – and parliament, which has neither initiated, nor blocked, a single piece of legislation under his rule, is becoming more critical of government.

Most important, some senior officers of the armed forces say they accept that greater wealth and better education are irresistible forces for political change. When Mr Suharto goes, a unified and flexible military will be essential to a smooth transfer of power.

There is no guarantee, however, that those business people currently benefiting from the regime, and who would have most to lose after Suharto leaves office, will be so far-sighted. Some have queried the right of the ruling Golkar party to question their business affairs. For them the prospect of political reform, bringing with it greater public scrutiny, must seem an anathema.

The government has a team of technocrats with a proven ability to manage the economy through times of boom and bust. Their success, however, has been grounded in the political stability which Mr Suharto has brought to bear on the country.

Indonesia's test of nationhood and economic resilience still lies ahead.

IN THIS SURVEY

☐ Editorial production: Phil Sanders

POLITICS

Parliament flexes its muscles

AFTER a month of campaigning, more than 100m voters turned out on June 9 to elect a new parliament in what was officially termed "a feast of democracy". Provisional results give the ruling Golkar party 67.5 per cent of the vote – down from 73 per cent in 1987 – with the two opposition parties splitting the remainder.

In 1987, the Indonesian Democratic Party (PDI), with its roots in the nationalist movement of former President Sukarno, took 11 per cent of the national vote, while the United Development Party (PPP), a loose coalition of Moslem groups, won 16 per cent.

With little chance of assuming power, opposition leaders have taken to criticising Indonesia's style of democracy.

Golkar is backed by the civil service and has a distinct advantage over its two opponents in terms of funding and organisation. At the last election it took 299 of the 400 seats on offer. The opposition parties also find themselves outnumbered by a further 100 members nominated by the armed forces (Abri).

Parliament has proved to be an ineffective counterbalance to executive power. Since President Suharto took the helm of state in 1965, parliament has neither blocked, nor initiated, a single piece of legislation.

But there are signs that the parliament is beginning to flex its muscles. Members have openly criticised the trade monopolies granted to companies led by Mr Suharto's children. A 1965 decree granting the president absolute powers is soon to be revoked.

Nevertheless, the real balance of power lies outside the political parties and the elected parliament.

Indonesia's political system is rooted in a national philosophy entitled entitled *Pancasila*. It consists of five principles:

- Belief in one God – this safeguards Indonesia from becoming an islamic state as it provides an umbrella for other religions;
- Justice and civility among peoples – government officials highlight this principle as an enshrinement of respect for human rights;
- The unity of Indonesia – political parties, and individuals, are not allowed to raise issues which might threaten disunity;
- Democracy through deliberation and consensus among representatives; and
- Social justice for all.

President Suharto and his wife Tien cast their votes in Jakarta

The three main interacting and competing forces in Indonesian politics are: Mr Suharto and those who enjoy his patronage; the armed forces, whose *dwi fungsi* [dual military and political] role is enshrined in law; and Islam, the popular leaders of which are becoming increasingly politicised and vociferous in their demands for democratic reform.

Senior Abri officers say privately that increased national wealth and better education are irresistible forces pushing political change.

They also insist that the dual role of the armed forces is essential to Indonesia's future.

Diplomats believe some officers, including General Benny Murdani, minister of defence, are concerned that Mr Suharto is not keeping a tight enough rein on his children's business interests.

This has led some Abri officers, diplomats say, to cajole the PDI party into nominating a candidate to oppose Mr Suharto when, as is widely expected, he runs for a sixth term of office next March. This would be a significant embarrassment for Mr Suharto who has always attracted all-party support for his election.

Names of alternative candidates include Mr Rudini, minister of home affairs, although his nomination by PDI would almost certainly be without his blessing.

The process by which the president is elected, however, weighs heavily in Mr Suharto's favour if and when he should decide to stand. The 1,000-member electoral college is made up of all the MPs plus another 500 members approved by Mr Suharto.

The focus of attention is more likely to be on who stands for the post of vice-president to replace Mr Sudharmono, who is not expected to seek a second term. The winner would be in a strong position to succeed 71-year-old Mr Suharto should he decide to call his sixth term the last.

A special military force, armed with automatic weapons, was raised to keep order during the poll

Likely candidates for the post are General Try Sutrisno, commander in chief of the armed forces, and Mr B. J. Habibie, the charismatic minister of research and technology, and a close associate of Mr Suharto.

In the past, however, potential successors have fallen like autumn leaves and Mr Suharto may wish to groom someone to reflect the aspirations of a younger generation of Indonesians.

One potential candidate is Lt-Col Prabowo Subianto, a divisional commander in the strategic reserve corps and married to Mrs Siti Hedjanti Herijadi, Mr Suharto's second daughter.

Moslem leaders such as Mr Abdurrahman Wahid, leader of Nahdhatul Ulama (NU) with an estimated 35m members, are likely to be thorns in the sides of both Mr Suharto and Abri.

Mr Wahid says the government is afraid of democracy and he believes that Islamic organisations, such as NU, should "liberate the population from poverty through democratic means".

Mr Wahid, widely regarded as a moderating force in Islam, says he will accept Mr Suharto as president for a sixth term, but his argument for not setting a timetable for democratic reform carries with it an implicit demand for change.

"Vaclav Havel did not have a timetable," he explains. "The people in Tiananmen Square did not have a timetable, Aung San Suu Kyi (the Burmese opposition leader) does not have a timetable".

William Keeling

FOREIGN AID

Human rights still an issue

INDONESIA'S decision in March to reject aid from the Netherlands startled foreign donors not merely by its suddenness but also because of the uncharacteristically vitriolic language in which it was couched.

Responding to Dutch criticism of the killing of at least 50 protestors by soldiers in Indonesian-annexed East Timor in November, the Jakarta government spurned all Dutch assistance and issued a statement condemning "centuries of inhuman colonial subjugation" and the "barbarous atrocities carried out by the colonial forces during the war of independence" in the 1940s.

The government also dissolved the Inter-Governmental Group on Indonesia (IGGI), through which aid was pledged, because it had been chaired by the Netherlands, the former colonial power, since 1968.

Coming from a country which received $4.75bn in pledges though the IGGI in 1991 alone, and which depends heavily on foreign aid for the development of its infrastructure as the economy expands, the decision could have been seen as remarkably rash.

In fact, as President Suharto had presumably predicted, very little has changed and very little damage has been done, except to some of the 175 projects financed by the Dutch and to those Indonesian non-governmental organisations which relied on Dutch support.

The World Bank will henceforth chair the donors' forum, which is due to meet in Paris in July, while both the Dutch and the Indonesian governments have taken pains to announce that they plan to continue and even strengthen their normal commercial relations. Everyone else has kept rather quiet.

Most aid workers and diplomats believe that Indonesia's outburst was a calculated effort to boost the government's electoral appeal and appease the armed forces – which had been criticised in an official inquiry for their role in the East Timor shootings – without seriously endangering the flow of aid.

"President Suharto had to show the military that he was rapping their knuckles not because of external pressure alone," said Mr Jusuf Wanandi of the Centre for Strategic and International Studies in Jakarta.

The Dutch were the perfect target: as the ex-colonial power they are the traditional scapegoats for the country's ills; their aid pledged for the 1991-92 financial year amounted to only $91m; well behind the World Bank, Japan and the Asian Development Bank (ADB) – all of which promised more than $1bn.

And Mr Jan Pronk, the Dutch development aid minister, was highly unpopular among Indonesian officials for his abrasive, emotional style of doing business both in the 1990s and in a previous tour of duty in the same job in the 1970s.

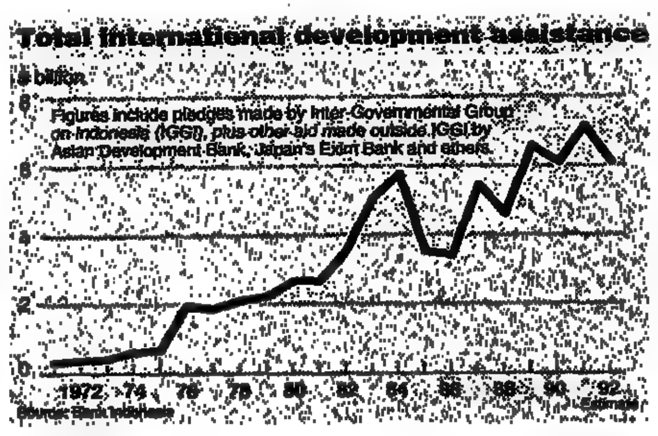
"Indonesia needs aid but in terms of major investment, in terms of agriculture, this comes from the World Bank and the ADB," said one senior western diplomat. "The rest, I'd say, is very marginal."

Significantly, countries such as Canada, which had been as outspoken as the Netherlands in their treatment of the East Timor incident, were ignored by Indonesia.

Although some Indonesian ministers were unhappy with the ferocity of the Indonesian gesture and western governments were offended by the undiplomatic language of the statements about the Dutch, the decision struck a sympathetic chord with Indonesians.

Mr Wanandi said it was unacceptable for the Dutch to continue ordering the Indonesians about after 300 years or for the west to take the high moral ground.

"Look at Los Angeles [where several people were killed in recent riots]. For them to be condescending or coercive is not acceptable."



The sentiment was echoed by Mr Radius Prawiro, the senior minister supervising the economy, industry and development. "What we do not like is when development assistance has been used to intimidate us," he said in an interview.

He thanked the Dutch for their support over the previous 24 years and predicted that overall development would not be seriously affected, since donor countries were free to fund whichever projects they regarded as suitable from Indonesia's "blue book" of development plans, often in a field which allowed them to support their own industries.

The larger issue of linkage between aid and human rights, however, is unlikely to go away.

The European Community has made it clear in discussions with the Association of South East Asian Nations (Asean, the six-country group of which Indonesia is a member) that it would like to see progress on human rights and on the environment.

Mr Prawiro did not sound too concerned. Overseas aid would account for 41.9 per cent of development funding in the projected 1992-93 budget, he said, compared with 52 per cent in 1991-92 and nearly 70 per cent two years ago.

"We actually have a negative outflow of capital with regard to borrowing from the so-called donor countries," he said, noting that aid included loans as well as grants and that Indonesia was repaying $7bn a year. "If we can't borrow from outside, it will be very difficult for us to repay the debts."

Victor Mallet

□ THE ECONOMY

A particularly delicate phase

INDONESIA has moved from a centrally-controlled, bankrupt economy in the mid-1960s to a nation with a 20-year record of annual economic growth averaging more than 6 per cent. Attracted by a programme of economic deregulation, twice as much foreign investment has been approved in the past five years – more than $26bn – than in the preceding two decades.

The country has benefited from Japan, Taiwan, South Korea and Singapore which have perceived Indonesia, with its 183m population, as an investment opportunity. The political stability of the "New Order" regime and the presence of western-trained government technocrats with at least one hand on the economic tiller, have engendered investor confidence.

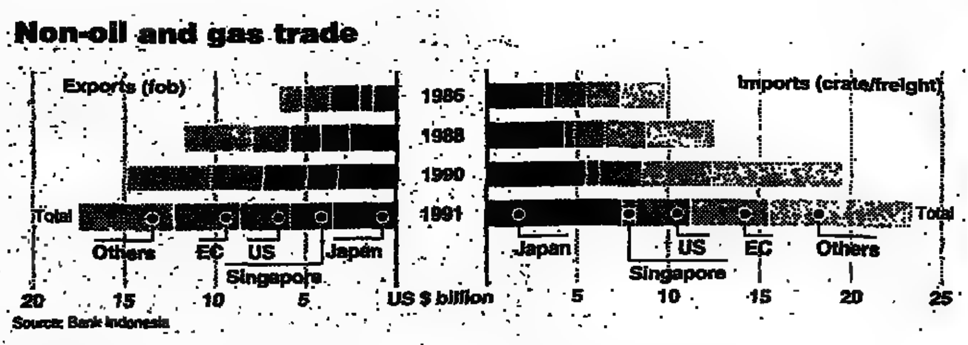
Despite these achievements, the jury is still out on the long-term success of the economy. Certain monuments to central control persist, such as the highly regulated sugar sector, and deregulation has sometimes meant little more than the transfer of a public monopoly to a private, politically-connected company.

Serious infrastructural bottlenecks, such as a shortage of power and a grossly inadequate telephone system, threaten to restrict future growth. Bankers estimate $85bn of infrastructural investment is required by the turn of the century, but sources of finance remain uncertain.

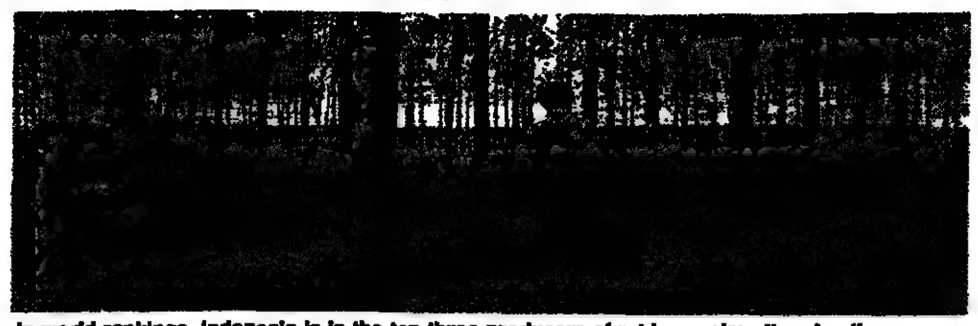
While Indonesia's great attraction is cheap labour – 2m people enter the employment market each year and annual per capita income is low at about $600 – there is a danger the country will become the mere repository of labour-intensive industries discarded by the newly-industrialised countries of the region.

Of the 1992 budget of Rp56,100bn 59 per cent goes to routine expenditure, such as civil service salaries and debt servicing, and 41 per cent to development expenditure which includes infrastructure, education and health services. International donors, such as the World Bank, the Asian Development Bank and western countries, are expected to provide Rp9,100bn toward this year's development budget.

Budgeted oil and gas revenue assumes a price of $17 per barrel and is forecast at Rp13,900bn, down 7 per cent on 1991. The overall budget, however, is 11 per cent higher than last year and the extra revenue is to come from a 36 per cent increase in income tax revenue, and a 34 per cent rise in value-added tax receipts.



Source: Bank Indonesia


In world rankings, Indonesia is in the top three producers of rubber, palm oil and coffee

Indonesia now has a more diverse economy than ever before. The role of oil and gas has fallen steeply in the past 10 years from 80 per cent to 39 per cent of export proceeds.

The contribution of manufacturing was 14.9 per cent of GDP in 1990. Agriculture contributed 19.5 per cent. However, the world Bank estimates that manufacturing will soon overtake agriculture and by the year 2000 should contribute 22.8 per cent of GDP compared to 14.5 per cent for agriculture.

Important export-oriented manufacturing industries include shoes, textiles and garments. The government's Investment Co-ordinating Board has approved more than 175 applications to build shoe factories with a total capacity of 600m shoes a year. Textile export earnings have risen from $806m in 1986 to $3.6bn last year.

The country's non-oil and gas export drive has brought impressive results, with exports increasing from $6.5bn in 1986 to $17.56bn last year (itself an 18 per cent increase over 1990).

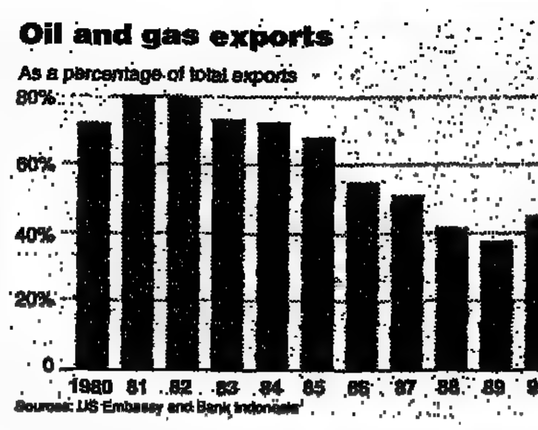
The depth of Indonesia's agricultural and mining sector remains an important source of economic strength, despite generally low international commodity prices. In world rankings, Indonesia is in the top three producers of rubber, palm oil and coffee. It is among the world's largest exporters of shrimps and prawns.

Exports of forest products totalled $3.35bn in 1990 and Indonesia is the world's leading producer of plywood. It is also an important producer of copper, nickel, tin and coal.

But dreams of an economic "take-off", the point where economists imagine growth becomes self-sustainable, received a knock last year when the government stepped in to cool an overheated economy. Money supply was tightened in February and ceilings on foreign borrowings were announced in October, as well as the postponement of up to $79bn worth of large-scale projects.

The move was prompted by concern at Indonesia's public and private international debt, $50bn and $25bn respectively, which has grown 44 per cent in the past three years.

A debt-service ratio of 31 per cent of export earnings – 24 per cent public and 7 per cent private – has led to a deteriorating current account deficit.



Sources: US Embassy and Bank Indonesia

The latter stood at $4.48bn last year but, government ministers concede, would have hit $8bn without immediate intervention.

Donors are concerned at the level of debt and say that manufactured exports will need to rise 20 per cent a year for the next four years if the debt-service ratio is to be significantly reduced. They say that last year's government intervention to cool the economy should have come sooner.

Bankers say the International Monetary Fund warned in early 1990 that, due to an explosion in bank credit, the economy was overheating.

When the brakes were applied fully last September, a fantastic array of large projects had been lined up for government approval. These included 16 oil refining proposals worth more than $21.5bn and tabled for construction before 1996. The situation was an ugly reminder of the mid-1970s when debts built up by Pertamina, the state oil and gas company, threatened to scupper the economy.

What appeared a firm government commitment to restrict borrowing has since been watered down with several postponed projects likely to go ahead, including the $2bn Exor-1 refinery and the $1.5bn Cilacap olefin plant. Others may proceed under foreign ownership, such as the $1.6bn Chandra Asri olefin plant and the $1bn Exor-3 refinery.

Government ministers say loans raised by wholly foreign-owned projects will not count toward Indonesian debt, although the effect on the balance of payments will be the same as foreign loans raised by domestic companies.

Donor agencies are concerned that projects supported by politically well-connected companies will proceed under the guise of foreign ownership and that a secondary debt, not recognised by government but serviced by the country's export proceeds, will be accumulated. Such a debt would undermine efforts at reducing the country's debt service ratio.

It would also compound the adverse economic effect of other politically motivated decisions such as the granting in 1991 of a private monopoly for the buying and selling of cloves which last year cost the country about $350m.

Donors forecast a slightly higher current account deficit of $4.8bn this year, increasing the country's reliance on aid from the donor community which will meet in Paris next month to discuss new commitments. Indonesia will be looking for at least as much as the $4.75bn committed by donors at their last meeting in March, 1991.

Indeed, after 10 years of deregulation the economy is at a particularly delicate phase.

Deregulation of the banking sector, of which the biggest tranche occured in 1988, led to a surge in the number of banks and a 122 per cent growth in credit between December, 1988 and the end of 1990. This restricted the government's ability to squeeze inflation which has risen from 6.2 per cent in 1989 to 9.2 per cent last year, although it is expected to fall to about eight per cent this year.

The tightening of money supply in February 1991 sent bank lending rates to 30 per cent. Although money supply has since been relaxed, 12-month lending rates have remained relatively high at about 24 per cent, although deposit rates have fallen to 17 per cent.

The higher cost of capital, combined with a relative downturn in export markets, has had a knock-on effect for companies.

In the past year two companies, Bentoel and Mantrust, have defaulted on loans totalling $770m. Economists fear they may be joined by other groups which over-expanded when credit was easily available. At the very least companies, and the larger conglomerates in particular, will undergo a period of consolidation.

The same applies to banks, many of which lent with poor, sometimes non-existent credit analysis. The seven state banks, which account for half the banking sector's assets, are in need of an immediate overhaul. Many banks in the private sector are little better off and a series of mergers is likely.

A worst case scenario would see a string of company failures in the second half of the year exposing an ill-managed banking sector. But this would be to underestimate the ability of the government to manage what remains a dynamic, if volatile, economy.

Most economists predict a continuation of a steady GDP growth of between 6 and 7 per cent, assisted by the coming on-stream of new export-oriented manufacturing capacity.

Despite a significantly lower oil price, provisional total export revenue of $7.28bn for the first quarter of 1992 is down only 1.5 per cent on the same period of last year, reflecting continuing growth of non-oil and gas exports. Total imports for the period remained constant at $6.32bn.

Equally, GDP growth of 6 per cent is unlikely to deliver the "take-off" of which the optimists dream. Given the cost of infrastructural improvements, the uneven state of development in the archipelago and the flood of new labour, every step towards greater economic prosperity will be a hard-fought battle.

William Keeling

Curbs on foreign borrowing

LAST October, the government announced ceilings on new foreign borrowing for the next four years. A total of $5.6bn is permitted this year, divided between the central bank ($500m), state banks ($1bn), state enterprises ($1bn), private banks ($500m) and private enterprises ($2.6bn).

The ceiling is to be gradually raised to $6.5bn by 1995, the increase being split between state enterprises and private companies.

Since the announcement was made, private banks have handed in details of offshore borrowing to the central bank and waited for further news.

Donor officials say Bank Indonesia has collated the figures and defined a mechanism by which banks will receive individual limits.

There is considerable doubt, however, whether this mechanism will ever be implemented. Not only is it open to abuse, with preferred banks receiving more generous limits, it is also tantamount to a foreign exchange control and the antithesis of Indonesia's liberal exchange regime.

In a recent report, the Asian Development Bank said: "Foreign investor confidence has been eroded somewhat by the uncertainties caused by the dramatic policy measures".

The report described the ceilings as "only a target (not a quota) for the private sector" but warned that "until the economy recovers, restoration of that confidence cannot be expected".

The ceilings have since been watered down by a decree in April allowing 100 per cent foreign ownership of new companies. Previously, foreigners were only allowed full ownership of companies inside bonded zones such as Batam Island.

The new decree applies to investments with a paid-up capital of more than $50m in the heavily populated provinces of Java and Sumatra. Projects with lesser capital must be situated in the more remote provinces to qualify.

The government has said that ceilings on offshore borrowing do not apply to loans raised to support wholly foreign-owned projects. Under the new decree, investors must sell 5 per cent of their equity to an Indonesian company or individual within five years, and transfer 20 per cent within 20 years. There is no requirement to export production.

William Keeling

□ FOREIGN INVESTMENT

Regulations relaxed

FOREIGN investment is no luxury for Indonesia. "Every year we have to create 2.4m new job opportunities," says Mr Sanyoto Sastrowardoyo, chairman of the Investment Co-ordinating Board (BKPM). "That's the population of the Republic of Singapore. That's why we invite foreign investors and domestic investors to build new factories."

With this in mind, and in the face of continuing competition from other capital-hungry developing countries, the government announced a liberalisation of foreign investment rules in April.

Henceforth, foreigners can start with 100 per cent ownership of a project either if it has a paid-up capital of at least \$50m, or if it is sited outside the main island of Java and the more developed parts of Sumatra.

This is in accordance with the government's efforts to spread development to the remoter reaches of the archipelago, or if the project is located in a designated industrial park in Java or Sumatra and all production is for export.

Within five years of start-up, the investors must sell at least 5 per cent to Indonesian interests, usually rising to 20 per cent within 20 years.

Regulations for existing investors have also been relaxed. Previously, 100 per cent foreign investments were allowed only on the bonded island of Batam near Singapore.

Potential foreign investors will welcome the new rules if they are properly implemented, partly because the revised regulations reduce the need for political connections when launching a project and allow more time for the difficult task of finding a suitable local partner.

The government's 'tight money' policy has sharply reduced domestic investment

"I think they are very happy about it," says Mr Sastrowardoyo. "We do hope that many more foreign investors will come to Indonesia, because now they don't have the immediate difficulty of finding the Indonesian partner and they can select calmly and systematically within five years."

The BKPM, which covers all investments except for oil, gas and finance, approved \$3bn worth of new foreign investment in the first four months of this year, which compares favourably with the figures of \$8.7bn and \$8.8bn reported in 1990 and 1991 respectively. In the past 25 years, half the foreign investment approvals by value have actually been implemented.

"We can say optimistically that by the end of this year the level (of foreign investment approvals) will be the same as in the last two years," says Mr Sastrowardoyo.

The government's "tight money" policy, however, has sharply reduced domestic investment and officials fear that foreign investment will also be curtailed by the slowdown of the world economy and Japan's financial turmoil.

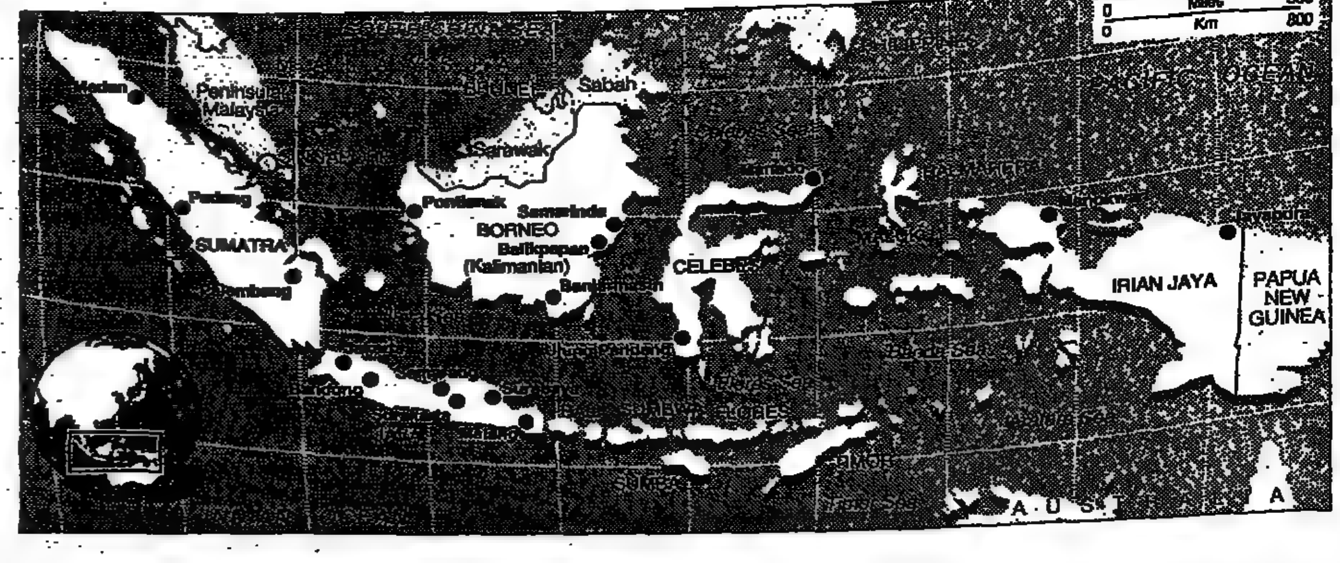
Indonesia's low labour costs remain particularly attractive – workers have complained that some Korean employers do not even pay the legal minimum – so much so that questions have been raised about whether Indonesia is getting a sufficient return from its manufactured exports.

Sports shoes from dozens of Indonesian factories, for example, are exported through Singapore middlemen. "The production costs of a pair of Nike or Reebok shoes or whatever are only \$6-\$7 a pair," says Mr Sastrowardoyo, "while the same pair sells in Europe or the US for \$70-\$85."

As in other south-east Asian countries, the transport and communications infrastructure has been overwhelmed by rapid economic expansion. Mr Sastrowardoyo acknowledges that there are complaints about electricity supplies but he says investors know that infrastructural deficiencies are temporary, and they can pay extra for their own supply.

Political stability has always been high on the list of investors' worries about Indonesia and it is difficult to say if the recent troubles in Thailand will exacerbate those fears (by highlighting the instability of the region's under-developed political systems) or allay them (by suggesting that Indonesia is no worse than supposedly stable Thailand).

"The Indonesian political system has provided stability and room for discussion," said one prophetic stockbroker in Jakarta before the clashes between troops and demonstrators in Bangkok last month. "Gross domestic product has increased steadily. There has been a shift from oil to non-oil export growth. Yet we come to 1992 and Indonesia's political risk rating is far higher than, say, Thailand."



A complicating factor for large foreign investments in Indonesia is the government's understandable concern about its foreign debt, which has risen 44 per cent in three years to some \$75bn. The government set ceilings on foreign borrowing in October, postponed several large investments, including four petrochemical projects, and redoubled its efforts to persuade investors to finance their projects with equity rather than loans.

One of the petrochemical projects, the Chandra Asri plant backed by President Suharto's second son, was subsequently reprieved on condition that it be scaled down and transferred to foreign ownership. The new investment rules were announced later, leading to charges that the liberalisation was designed to legitimise, post facto, a go-ahead for Chandra Asri.

Other large investments in the pipeline include foreign bids for units of the Paiton power complex, the proposed \$1bn Exor III refinery on Bintan Island (a joint venture between BP and C. Itoh), two US chemical plants and two US banana projects, Mr Sastrowardoyo says.

There are no immediate plans to provide further ownership incentives for foreign investors. "That's it for the time being," says Mr Sastrowardoyo. "We are going to move in another direction. We are going to simplify our negative list."

The number of sectors restricted for new investment fell to 60 last year from 75 in 1989 and there are plans to reduce the figure further.

Indonesian officials are hoping that any decline in Japanese interest will be compensated for by countries such as Taiwan (which had the highest value of investment approvals last year) or by western companies anxious to establish a springboard for exports into the rest of Asia.

Mr Radius Prawiro, the minister responsible for overseeing the economy, says the focus of Indonesia's trade is moving away from commodity exports to Europe and energy exports to the US towards closer links with the Asia Pacific region.

"Our trade with Asia and the Pacific now takes 70 to 75 per cent of our exports," he says. "This makes our country attractive for non-Asian investment."

Victor Mallet

□ BATAM

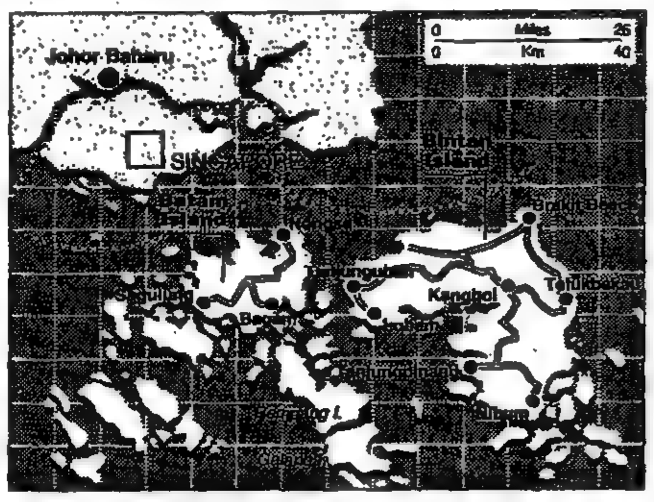
Key role for Singapore

INDONESIA'S attempts to develop far-flung reaches of its territory away from the main island of Java have finally borne fruit in the Riau islands, but the exploitation of Batam, Bintan and the other islands owes as much to the determination of nearby Singapore as to the Indonesians themselves.

Under the so-called "Growth Triangle" concept espoused by Singapore, the Riau islands and the southern Malaysian region of Johor can benefit from Singaporean investment and expertise while providing the labour and the land which Singapore and the multinationals based there find so hard to obtain. Batam alone is two thirds the size of Singapore and there is a plentiful supply of contract workers flown in from overcrowded Java.

Singaporean efficiency in constructing the necessary infrastructure was crucial to the development of Batam as an industrial location for foreign investors.

Indonesia granted foreign investors the right to 100 per cent ownership of their Batam operations three years before the privilege was extended nationwide in April this year. But of eight industrial estate projects on the island, the only one operational is run by Batamindo, the \$400m joint venture between Singapore Technologies Industrial Corp and Jurong Environmental Engineering (both of Singapore) and the Indonesian Salim group of Mr Liem Sioe Liong, the wealthy business associate of President Suharto.



So far, 29 companies, including Thomson, Philips, AT&T and Bowater have begun operations at the Batam Industrial Park. In all, 40 per cent of Batam has been set aside for industry, while the larger island of Bintan is being marketed as a tourist attraction as well as a location for factories.

The proposed \$2.2bn Bintan Beach International Resort is being touted as "Asia Pacific's playground of the 21st century" and will be sold together with Singapore as a single tourist destination.

Singapore's relationship with Indonesia, like its older tie to Malaysia, may be complementary but it has not been without friction. Singaporeans find themselves frustrated by what they politely refer to as Indonesia's "different work ethic" while the Indonesians sometimes accuse the economically-advanced Singaporeans of arrogance and condescension.

A priority for Singapore has been smoothing the way for Singapore-based companies to base themselves in Batam – for example by introducing a "smart card" for immigration control at ferry terminals – but the impatient attempts to bypass Indonesian bureaucracy can easily be interpreted as an assertion of de facto sovereignty.

"The problem we have is that we don't want to over-emphasise that we are running the show," says one senior government official in Singapore.

Mr Chudri Nizar of Indonesia's Batam Industrial Development Authority – asked in Jakarta if the sovereignty issue was a problem – replied: "It can be."

Indonesian officials acknowledge, however, that the confidence inspired by Singaporean economic management and the proximity of Singaporean financial and technical services are essential in the drive to attract international companies to Batam.

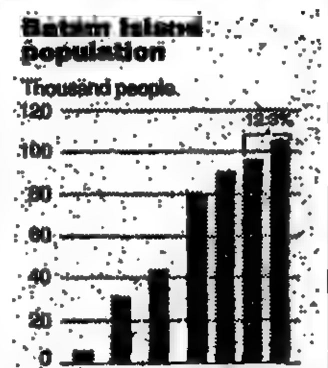
Ms Jean Tsai of Thomson Consumer Electronics, the first company at the Batamindo estate to start operating in early 1991, describes Thomson's S\$3m investment in a television modulator and tuner assembly plant as "a toe in the water", but says the experience has been positive and an expansion is on the cards. Thomson already has plans to employ 1,000 people on Batam.

"We operate on Indonesian soil but Batamindo is there to smooth the way," Ms Tsai says. "Batam is close. Expatriate Singapore managers can come here [Singapore] for the weekend."

Environmentalists might balk at the damage done by development to Batam's natural beauty – soil erosion is visible everywhere – and labour activists might criticise the idea of housing migrant workers in a dormitory building on the estate, but investors are happy to reap the rewards of low labour costs.

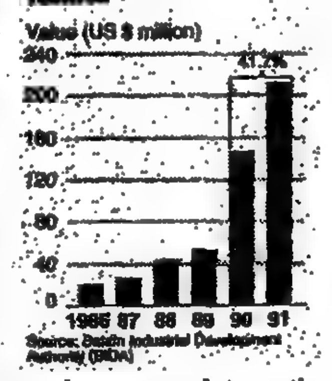
Batamindo officials say most of the production workers they supply are women between the ages of 18 and 25. Companies pay about S\$220 per month per worker to Batamindo, of which the employee receives about S\$150.

Batam Island population



Source: Batam Industrial Development Authority (BIDA)

Exports from Batam Island



Source: Batam Industrial Development Authority (BIDA)

After the difficult start-up period, companies are anxious to employ their own production workers and to hire skilled Indonesian staff to take over managerial jobs from expensive Singapore expatriates who find the living conditions on Batam relatively harsh.

"The main problem now is the training of the staff to take over more responsible positions," said Mr M. S. Leow, manufacturing manager at Thomson's Batam plant.

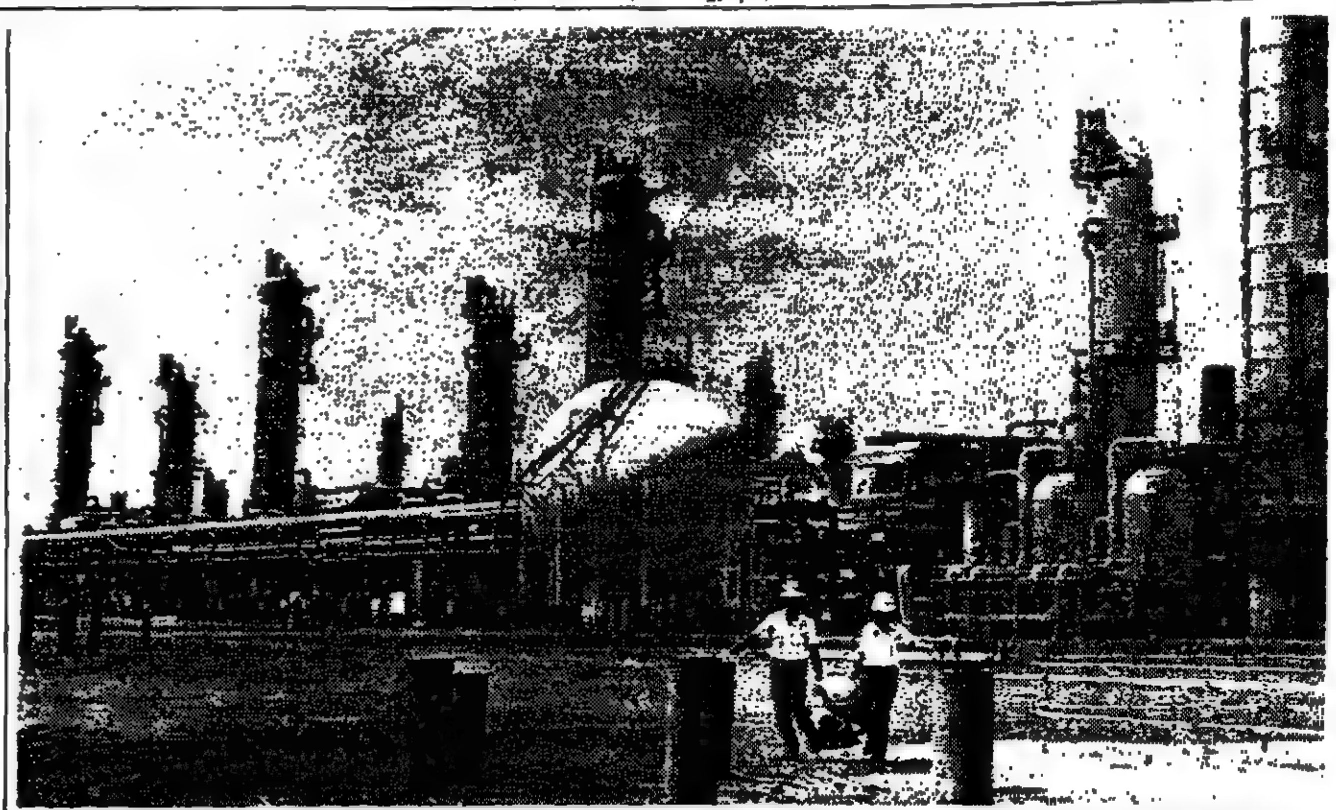
Earlier problems included difficulties with telecommunications and the movement of goods. These are said to have been resolved, although a new harbour may have to be constructed because the main port is working at full capacity.

Batam, vigorously promoted by Mr B. J. Habibie, minister of state for research and technology, saw its population grow to more than 107,000 last year from a mere 6,000 in 1973. By the end of next year, the airport is supposed to be capable of receiving Boeing 747 jumbo jets.

Batam's exports rose to \$210m in 1991 from \$148m in 1990, but officials agree that it is difficult to gauge the economic significance of the gross export figures because the island is a low-cost assembly location and imports are presumably rising rapidly as well.

The Riau islands are developing fast, but they will continue to depend for the time being on the backing of the Indonesian government and of Singapore.

Victor Mallet



The Arun Liquified Natural Gas (LNG) plant in Lhokseumawe is one of the largest natural gas processing facilities in the world

□ OIL AND GAS INDUSTRY

Uncertainty and expansion

INDONESIA'S oil sector is at a turning-point. A record number of contract areas have been signed in the past three years, confirming oil companies' interest in the archipelago.

The number of new discoveries, however, has been disappointing and Indonesia is unlikely to postpone the date on which it becomes a net importer of oil until after the turn of the century.

Production has averaged about 1.5m barrels per day and reserves remain around 11bn barrels, enough to sustain production at current levels for another 20 years. In addition, only 36 of Indonesia's 60 known oil basins have been explored and only 14 developed.

Most new areas of exploration, however, are in complex geological structures or are deep offshore.

Current reserves were built up during two periods of extensive exploration in the 1940s, and again in the 1960s. The country is now undergoing a third wave of exploration. The number of new production-sharing contracts signed between Pertamina, the state-owned oil and gas company, and foreign oil companies, rose from seven in 1987 to a record 22 last year.

However, the level of exploration commitment under the new contracts – over \$2.8bn within the next 10 years – is not particularly high, and oil companies want contract incentives improved.

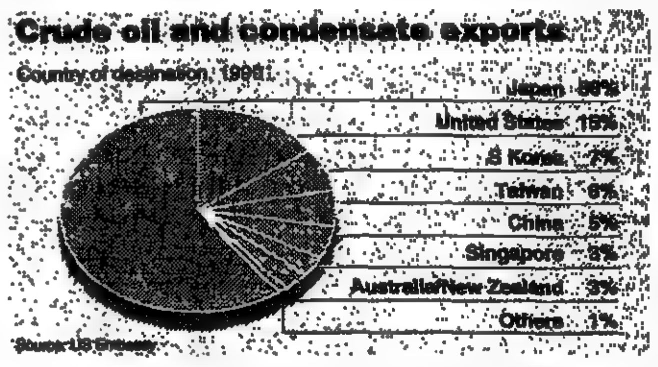
The government disagrees, saying the incentives are adequate. "How else can you explain the jump in the number of new contract areas, except that the conditions are sufficient?" said one government official.

Foreign companies insist, however, that the terms are among the least attractive in the world. As one executive noted: "The number of signed contract areas may be up, but the level of drilling is down".

Even if exploration drilling increases, the number of sizeable deposits remaining to be discovered is an unknown quantity, although the immediate omens are not good. As an executive of a foreign oil company explained: "The last block awarded that had over 100m barrels was in 1971. No-one taking up new acreage has had significant discoveries."

Crude oil and condensate exports

Country of destination, 1991



Source: US Embassy

Meanwhile, domestic fuel consumption is growing rapidly. In 1990 it rose 20 per cent to nearly 700,000 barrels a day (b/d) and the rate of increase is expected to continue over the next decade. Government and industry officials agree that at some point between 1997 and 2005 Indonesia will become a net importer of oil and will have to leave the Organisation of Petroleum Exporting Countries.

This will go hand in hand with a move to process more of domestic production. The wilder fancies of Pertamina received a blow last September when the government announced that 16 refining projects, provisionally scheduled for construction before 1996 with a total cost of \$21.5bn, had been postponed.

A number of projects have, however, be allowed to proceed. These include the \$420m upgrading of the Musi and Balikpapan refineries and construction of the \$1.5bn Cilicap olefin plant and the \$2bn Exor-1 refinery.

The government has also given approval for a \$1.6bn Chandra Asri olefin plant to go ahead under 100 per cent foreign ownership, although how its Indonesian backers, including the Bimantara Group run by President Suharto's second son, will meet this condition is uncertain.

Also likely to be given approval under condition of foreign-ownership is the \$1bn Exor-3 refinery in joint partnership between BP of the UK and C.Itoh of Japan.

While the future of the oil sector is uncertain, the gas sector is likely to expand over the next decade. Indonesia is the world's largest exporter of liquified natural gas (LNG) with exports in 1991 estimated at 22.5m tonnes, and also produces liquified petroleum gas (LPG), with exports of 2.6m tonnes in 1990.

Liquid natural gas exports (tonnes m)

	1989[1]	1990[1]	1991[2]	1994[3]
Japan	16.67	17.70	18.50	19.90
S Korea	2.02	2.25	2.50	4.90
Taiwan	-	0.85	1.50	2.20
Total	18.69	20.80	22.50	27.00

Source: US Embassy
Notes: [1] Actual [2] Estimate [3] Forecast

In 1990, LNG and LPG export revenue totalled \$4.2bn, equivalent to about 550,000 b/d of crude oil. Between January and October last year, LNG exports totalled \$3.1bn and LPG exports reached \$287m. Indonesia's principal buyer remains Japan, although Taiwan and South Korea are emerging markets.

Upgrading of LNG production facilities is expected to raise capacity to from 22.6m tonnes in 1990 to 23.5m tonnes this year. A \$750m contract to construct a sixth LNG train at Bontang, East Kalimantan, has been awarded to the Humpuss Group led by President Suharto's youngest son. Due for completion by 1994, it will boost Indonesia's total production capacity to 27m tonnes.

The new train will supply 20-year contracts to sell 2m tonnes a year to Osaka Gas, Tokyo Gas and Toho Gas of Japan.

In total, Indonesia has long-term LNG contracts to export 24.5m tonnes from 1994. Industry officials expect further contracts to raise production to a sustainable level of 30m tonnes a year shortly after the turn of the century.

The one area of uncertainty is the development of the Natuna gas field situated in the South China Sea which, with 45 tscf (trillion standard cubic feet) of commercial gas reserves, is at the heart of the industry's future.

Esso Indonesia has a 50 per cent stake in the field, with the remaining interest held by Pertamina. Government officials concede, however, that Pertamina will be unable to fund its share of the \$15bn required to develop the field.

"Pertamina cannot raise the money and government officials say Pertamina may reduce its stake in Natuna to 10 per cent. Whoever takes the 40 per cent will be expected to carry Pertamina's financing obligations", an industry executive close to the negotiations explained.

Companies which have shown an interest in taking a stake include Nissho Iwai, Mitsui and Mitsubishi of Japan, and Mobil of the US.

The high capital cost of the project is accounted for by the heavy platforms and technology needed to handle the gas which has a 70 per cent carbon dioxide content.

Exactly how the carbon dioxide will be handled, given environmental concerns that it should not be released into the atmosphere, has not been finalised.

A deal must be struck this year if Natuna is to come on stream by 1998, the year when Pertamina starts to renegotiate important long-term LNG agreements with Japan. These are currently being supplied by the Arun field off north Sumatra, but its reserves are insufficient to guarantee new contracts.

William Keeling

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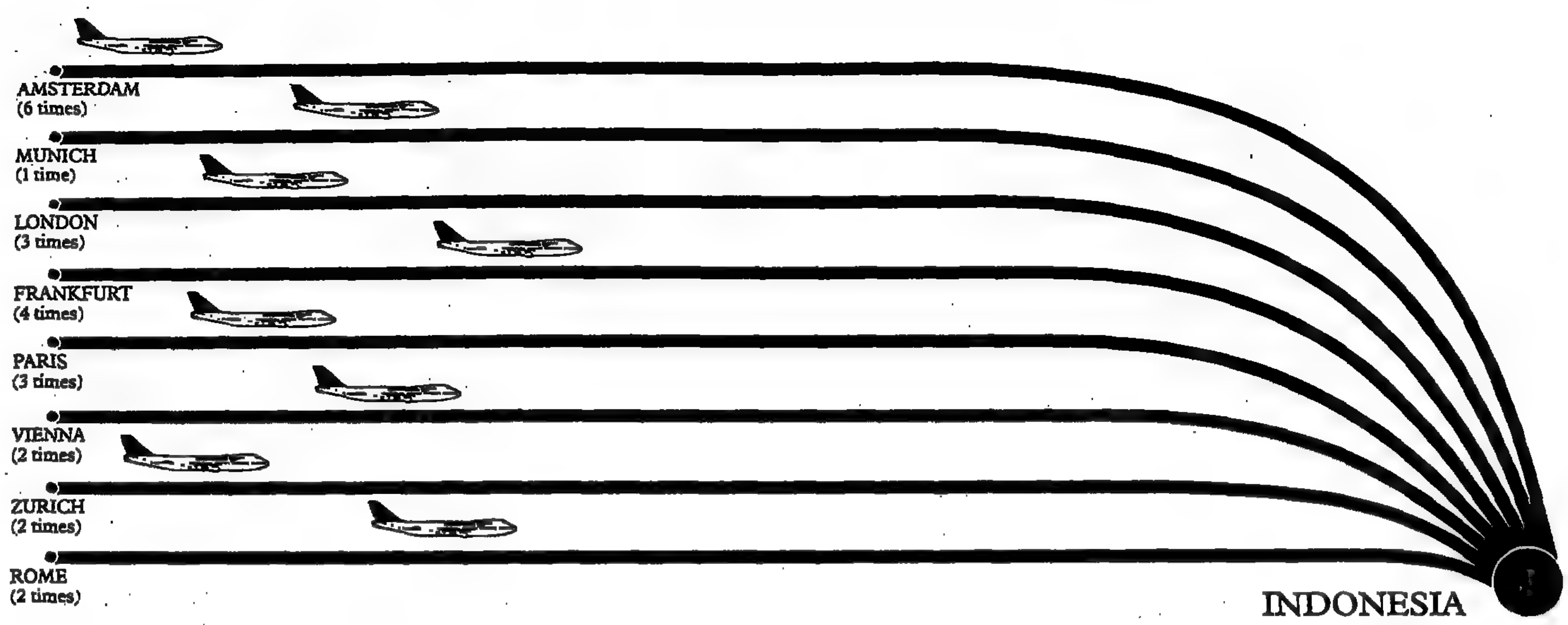

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☐ THE STOCK EXCHANGE

A market for the brave of heart

THE Jakarta stock market has had two turbulent years, its composite index crashing from a high of 682 in April 1990 to under 325 last October.

Since then, however, steps have been taken to restore investor confidence including new listing requirements and the transfer of the exchange's management to a private company.

On June 10, the day following parliamentary elections, the index broke 320, amounting to a 44 per cent rise in less than eight months. While many investors are carrying large losses from two years ago, fast profits can still be made.

The share values of some of the most traded companies prove the point: between April 20 and early June Indocement, the largest company on the market, rose 14 per cent; Astra International, which accounts for half Indonesia's vehicle sales, went up 30 per cent; and

The overriding characteristic remains its illiquidity and this brings with it volatility in share prices

Kalbe Farma, the leading pharmaceutical company, increased 25 per cent.

The Jakarta market, however, is for the brave of heart. As Miss Sian Hansen, analyst at Crosby Securities, explains: "Forces behind the Jakarta stock market are unusual. Companies' share values often fail to reflect underlying market principles. Instead, the market is fuelled mostly by sentiment".

A report by Hoare Govett in April, when the market stood at 271, predicted a 15-20 per cent growth in the index by the end of the year. Since the report, the index has risen a further 11 per cent and some brokers are talking of the index nudging 400 by year-end.

The overriding characteristic of the Jakarta exchange remains its illiquidity and this brings with it volatility in share prices. Shares in Bakrie and Brothers, a conglomerate with key interests in the steel sector, have risen 100 per cent in three months on the back of heavy buying by foreign brokers.

Regulatory changes drawn up by Bursa Efek Jakarta, the new private managers of the stock exchange, were due to come into force on June 18 and should improve liquidity.

They provide tougher qualifications for a new company wishing to be listed on the exchange: an operating profit for two consecutive years; minimum assets of Rp20bn; equity capital of at least Rp7.5bn and paid-up capital of more than Rp2bn; at least 200 public shareholders; and a free-float of at least 1m shares.

Companies may be struck off if they record losses for three consecutive years; if their shares are not traded for more than six months; if they cannot produce scheduled financial reports or if accounting standards are not met.

The measures are designed to boost investor confidence after a series of scandals which began the index's precipitous fall in 1990. The worst was when Bank Duta, more than 70 per cent owned by charities chaired by President Suharto, failed to disclose foreign exchange losses of $419m a few months before the bank went public.

Confidence in the business community was hit last year with the announcement by two companies, the Mantrust conglomerate and Bentoel, a cigarette company, that they would be unable to service loans totalling $770m. And there may be more bad news waiting in the wings.

The Soeryadjaya family, which own 76 per cent of Astra International, the second-largest quoted company, have admitted that their private Summa Group requires financial restructuring. Brokers believe the Soeryadjaya family is preparing to sell up to half its stake in Astra International worth over $500m.

The future of Astra International relies largely on who takes up the Soeryadjaya shares. If it is a reputable foreign company which can bring with it new technology and management expertise, Astra could emerge the stronger. Brokers are fearful, however, that the family is under pressure to sell to domestic, politically well-connected, companies with only limited experience in motor cars.

Astra may not be be alone in having potential problems. Dr Mari Pangestu, head of economics at the Centre for Strategic and International Studies in Jakarta, says: "Perhaps the greatest concern... is a string of company failures" in the year ahead.

Many of the domestic conglomerates which expanded rapidly in 1989-90 have been vulnerable to high interest rates which followed the tightening of money supply in early 1991. However, Dr Pangestu says: "In most cases core business is still relatively profitable."

If some companies are in trouble, the first to be affected will be the banks. A measure of investor confidence in Indonesia will be how the value of bank shares react to a new decree, expected to be finalised this month, which will allow foreigners to buy up to 49 per cent of a listed bank's shares.

Brokers say the initial signs are mixed. Foreign investors have been working through domestic institutions to buy shares in advance of the decree but following a recent rally in bank share prices, concern over loan-loss provisions may dampen investor enthusiasm.

Nevertheless, the long-term prospects for the market are bright.

With a population of 183m and annual per capita income forecast by the World Bank to double to more than $1,000 by the turn of the century, Indonesia remains a vastly under-developed and potentially lucrative market.

Mr Hasan Zein Mahmud, president of BEJ, bemoans the lack of initiative shown by many domestic institutions, such as state pension funds, which prefer to place their funds on time deposit. As such, he believes the future of the stock market lies in foreign investors' hands.

He says there are thousands of potential companies waiting to list but adds: "Who will be the buyer of shares? It must the foreign investor".

William Keeling

Turbulent times: applicants for a new share issue in Jakarta

☐ AGRICULTURE

A base for steady economic growth

INDONESIA'S steady economic growth is derived as much from its agricultural base as from investment in manufacturing. Indeed, one of the country's most significant achievements in the past decade has been substantially to boost agricultural production, both of food and cash crops.

From being the world's largest importer of rice, its staple food, in the late 1970s, Indonesia is now self-sufficient. It has strengthened its position as a leading exporter of commodities such as rubber, coffee, cocoa and palm-oil.

However, the agricultural sector also provides some of the most glaring examples of economic mismanagement. Sugar production and processing remains within an inefficient system of state control and clove farmers have suffered the inequities of a private trading company which has enjoyed monopoly rights to buy and sell their crop.

About half the population is involved in rice production and marketing but the drive toward self-sufficiency, initiated in the mid-1960s, did not meet with immediate success. In 1979, for example, Indonesia imported a record 2m tonnes to supplement production of 17.9m tonnes.

This year, production is estimated at 29.25m tonnes, an increase due mainly to improved rice strains and a system of Integrated Pest Management (IPM) which in many areas has enabled farmers to grow three crops a year, instead of the previous two.

The IPM programme was evolved to tackle the "planthopper" insect which, in the late 1970s, ate its way through many million tonnes of rice. Research showed that an excessive use of pesticide was to blame, killing the planthopper's natural predators. This led the government in 1986 to ban more than 50 pesticides which had previously attracted state subsidies.

The demands of a growing population, however, mean that future self-sufficiency is far from guaranteed. This year, the country will import about 700,000 tonnes of rice due to a drought-affected crop last year. Much of this will be done by recalling rice "loans" made to neighbouring countries during earlier years of surplus.

Palm oil is experiencing a seemingly inexorable rise in production, increasing from 1.37m tonnes in 1987 to an estimated 2.9m tonnes

Cash crops have seen a similar surge in production.

Rubber production rose from 1.05m tonnes in 1985 to 1.27m tonnes last year, making Indonesia the world's second-largest producer. Coffee production has risen from 311,000 tonnes in 1985 to a forecast 476,000 tonnes this year, making Indonesia the third largest-exporter, accounting for about 7 per cent of world coffee trade.

Cocoa production has soared. Indonesia produced just 18,600 tonnes in 1984 and the government planned an increase to 56,000 tonnes by 1988 but the farmers have wildly exceeded targets. Production in 1989 hit 143,000 tonnes and is forecast at up to 160,000 tonnes this year.

Palm oil is also experiencing a seemingly inexorable rise in production, increasing from 1.37m tonnes in 1987 to an estimated 2.9m tonnes this year. Industry officials say production in 1993 may be as high as 3.7m tonnes.

By boosting production, however, Indonesia has contributed to the global oversupply of these commodities and the sharp fall in international prices. In the face of stagnant prices, the value of rubber exports rose from $718m in 1985 to $855m in 1990. But revenue from coffee exports fell from $560m to $372m in the same period.

Donor agencies believe that the rubber sector will pick up – the World Bank is still funding smallholder production programmes – but coffee may be heading for a crisis. Industry officials forecast Indonesian supply outstripping demand by 77,000 tonnes next year. The future of palm oil depends on the industry countering suggestions that it contains a high cholesterol content.

Some farmers have moved towards higher-value commodities by developing aqua-agriculture, particularly shrimp farming. The value of lobster, shrimp and prawn exports rose from $269m in 1986 to $704m last year, with Japan the principal market.

Where farmers have been given a free hand, the result has mostly been one of higher and more efficient production.

This has not led, however, to the de-regulation of the sugar sector which – with land forcibly turned over to production, prices set by government and 80 per cent of processing capacity in the hands of the state – is a throw-back to the centrally-controlled economy of the early 1960s.

Donors say Indonesia, like the European Community, lacks a comparative advantage in the production of sugar and the domestic price is over 25 per cent more than the world market price. Production has been stagnant over the past four years at about 2m tonnes.

This year, sugar imports, also government-controlled, are expected to reach 375,000 tonnes, providing a substantial source of revenue when sold to the consumer at the set domestic price.

The cloves sector has suffered most from government intervention, albeit through the guise of introducing private sector participation. Cloves are the key ingredient in Indonesia's fragrant *kretek* cigarettes and up to 4m farmers are expected to produce 100,000 tonnes of cloves this year.

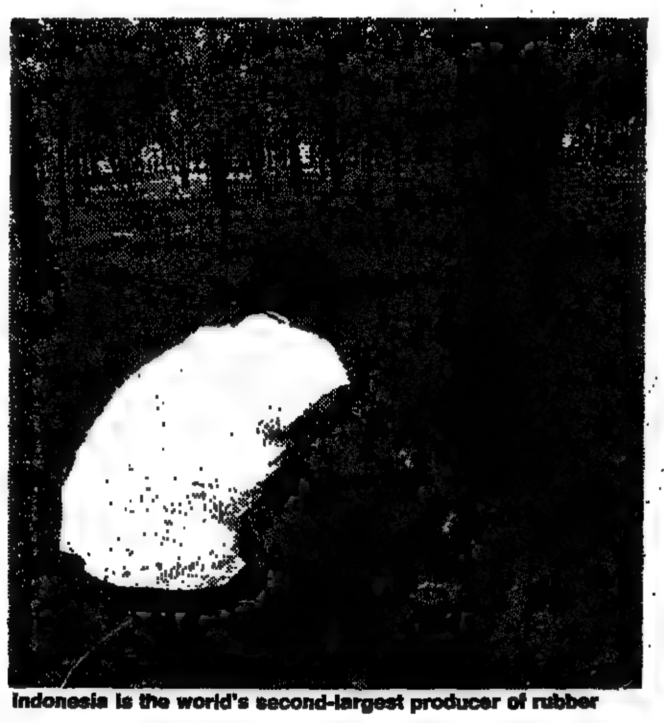
In January 1991, the government awarded a monopoly over the buying and selling of cloves to Badan Penyangga dan Pemasaran Cengkeh (BPPC), a private company headed by Mr Hutomo Mandala Putra, President Suharto's youngest son.

BPPC set a farm gate price of Rp7,900 per kilo and a selling price to cigarette companies of at least Rp12,700 per kilo (more than four times the world market price), giving a projected sales revenue last year in excess of Rp1,000bn. In addition, the company received Rp759bn in low-interest credit from the central bank.

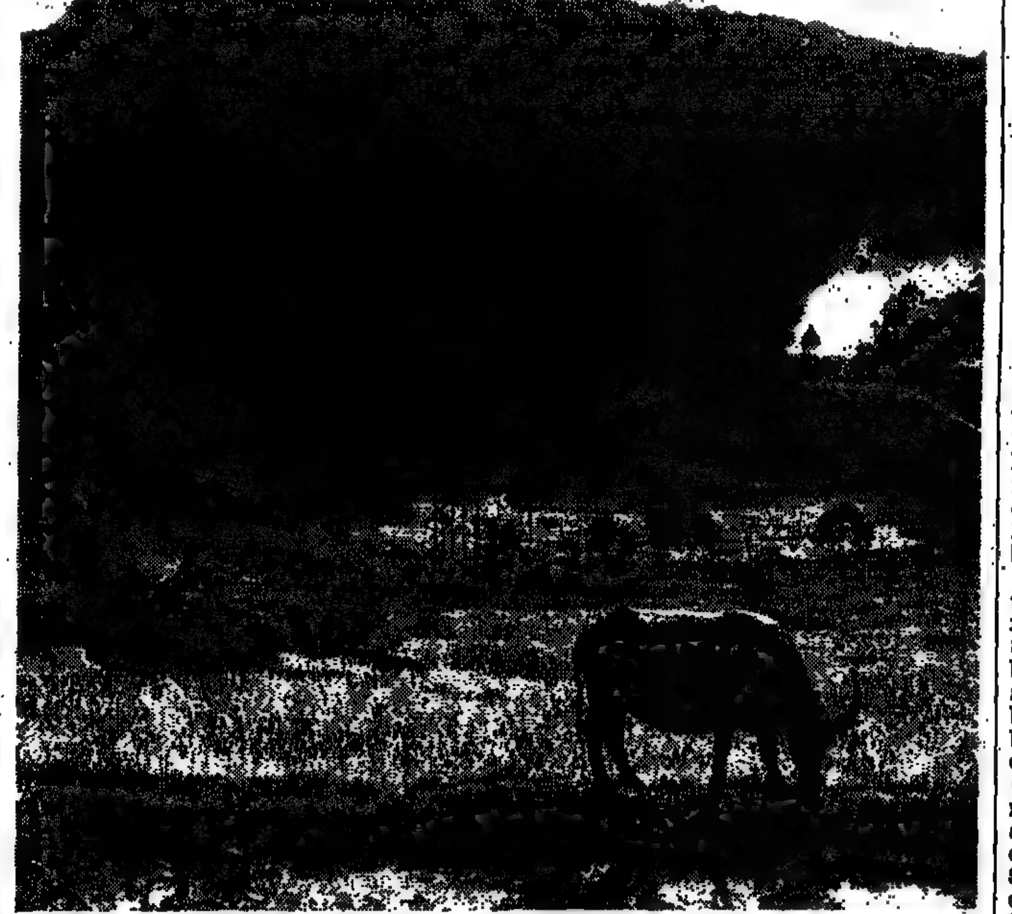
Donor officials say most farmers received just half the ceiling price for their crop in 1991 and in February Mr Putra announced that BPPC would be unable to service its loans. He suggested farmers cut down one third of their clove trees to ease oversupply.

Critics of the government say the private monopolies raise doubts about the commitment of senior members of the administration to de-regulation. Government ministers, however, have said privately that the issue of monopolies will be tackled within a year, although further de-regulation of agriculture is certain to be high on the donors' agenda when they meet in Paris next month.

William Keeling



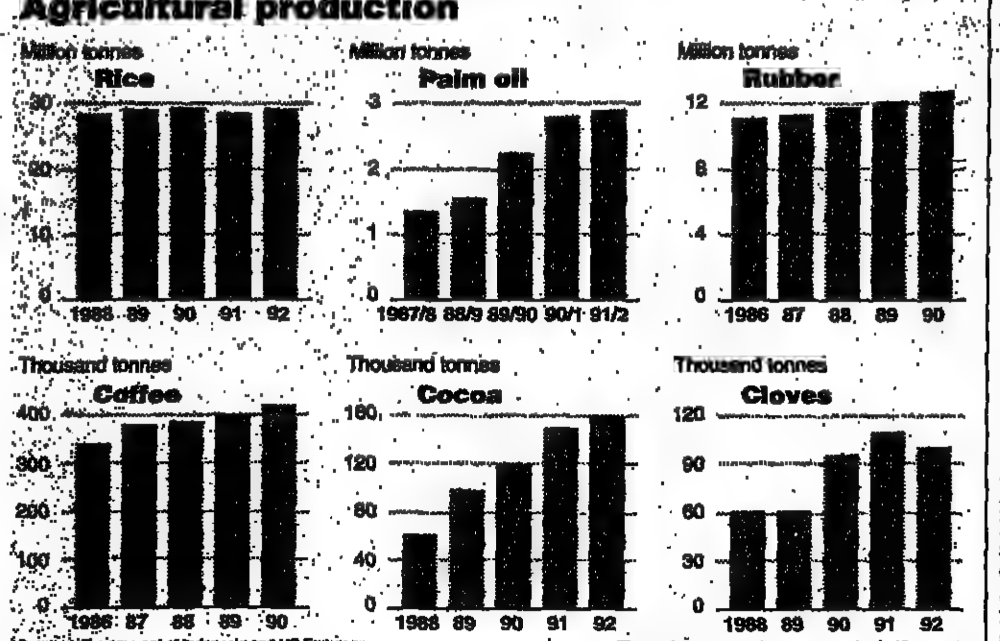
Indonesia is the world's second-largest producer of rubber



Food and cash crops have been substantially boosted in the past decade

Picture: Cathy Rowland

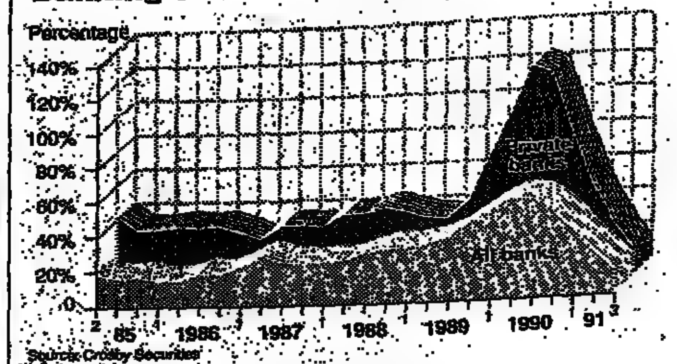
Agricultural production



Source: Government of Indonesia and US Embassy

Figures for years Jan-Dec except Palm oil (Oct-Sept)

Banking sector loan growth



☐ BANKING

Shake-out may be imminent

BANKING sector deregulation has been at the heart of Indonesia's economic growth over the past 10 years, prompting a surge in the number of banks and in the availability of credit to companies wishing to expand.

It has done little, however, to improve efficiency and bankers say a shake-out of the sector may be imminent.

Deregulation began in 1983 when ceilings on credit expansion were removed, but the real impetus came with the 1988 reforms which allowed new private domestic banks to set up, existing foreign banks to open limited branch networks and new foreign banks to create joint ventures with domestic institutions.

Between 1988 and 1991 more than 70 banks and 2,000 branches were opened. Coinciding with a flood of new investment in low cost, export-oriented manufacturing, the result was a credit explosion. Total bank credits rose from Rp44,001bn in 1988 to Rp97,696bn in 1990.

While banks chased clients with offers of large loans and generous credit card terms, bankers chased high salaries. The chief foreign currency dealer of one foreign bank was poached with an up-front payment of $400,000.

In the past 18 months, banks have had to come to terms with a series of government initiatives that have reduced credit growth from a peak of 60 per cent year-on-year in mid-1990 to a forecast 15 per cent this year:

- In February 1991, the government ordered 12 parastatals to convert Rp8,000bn of their bank deposits – equivalent to about one third of money in circulation – into certificates issued by Bank Indonesia (BI), the central bank.
- Banks were told to raise their capital adequacy ratios requirement to 5 per cent of total assets by last March; banks had previously averaged about 2 per cent. This has to be raised further to 7 per cent by next March, and to 8 per cent the following December.
- Last October, ceilings on new foreign borrowing were announced. Private banks are collectively restricted to $500m of new borrowing in each of the next four years; the seven state banks are allowed up to $1bn of new foreign borrowing a year until 1996.
- In December 1991, a complex set of regulations was introduced which limited banks' offshore funding to 30 per cent of their equity. In addition, the central bank said that by next year 80 per cent of banks' lending in foreign currency portfolios must be to export-oriented companies.

The restriction on foreign borrowing was prompted by the rapid growth of Indonesia's international debt which increased 44 per cent to $75bn in the past three years. Private debt accounts for one third of the total and has been growing most rapidly.

Donors say, however, that the decision to announce new regulations is a sign of Bank Indonesia's weak capacity to supervise the sector. Confidence in the central bank was also shaken with the recent removal of its head of banking supervision. The official had complained that a leading private bank's loan portfolio was over-committed to companies belonging to its main shareholder.

The central bank has not shown much inclination to enforce last December's regulations. Banks have handed in figures for their offshore borrowing but have not heard from Bank Indonesia if the sector is within its limit. Joint-venture banks have been told that they need not strictly comply with the rule limiting foreign borrowing to 30 per cent of equity.

The regulations have, however, capped the worst excesses of the banks and made them look to the quality of their loan portfolios.

Central bank officials say the level of bad and doubtful debts in the sector has increased from 3.9 per cent of total loans in 1990, to 5.9 per cent in 1991.

Donor officials say that for the five state commercial banks, which account for about half the banking sector's assets, the position is considerably worse, with bad debts accounting for 15-25 per cent of their portfolios.

The World Bank is proposing a $300m loan to restructure the state banks which, if all parties agree, should be in place by August. Bankers estimate that the state banks will require a capital injection of about $2bn by December, 1993, to satisfy capital adequacy requirements.

Many private banks have also found themselves over-extended but have made use of a loosening of the money supply to lower deposit rates to about 17 per cent, while keeping lending rates relatively high at 24 per cent.

Like Bank Summa, many private banks must come to terms with bad debts on their books

One foreign broking house estimates that most banks in Indonesia need a spread of 7.6 per cent over deposit rates to break even. This allows for high overheads (3 per cent) and for provisions of bad debts (4.6 per cent).

One bank which has accepted the need for restructuring is Bank Summa, majority owned by the Soerjadjaya family which also holds 76 per cent of Astra International, Indonesia's second-largest quoted company.

Bank Summa has been hit by a sharp decline in the property development market. Its shareholders have recently injected up to Rp550bn but, bankers say, Bank Summa may require a further injection of capital unless property prices pick up soon.

Like Bank Summa, many private banks must come to terms with bad debts on their books. A recent report by Jardine Fleming Nusantara, local subsidiary of Jardine Fleming merchant bank in Hong Kong, estimated that on average banks were providing just 1.0-1.5 per cent of performing loans for bad debt.

While the state banks are looking to the government and donors for new capital, private banks will be looking to the foreign investor. A new banking decree, due to be finalised this month, will allow foreign investors to buy, for the first time, up to 49 per cent of a bank's listed shares.

Foreigners are likely, however, to be selective of the banks in which they invest. While Bank Indonesia is certain to step in as a lender of last resort for any bank in crisis, a series of mergers in the year ahead remains on the cards as the sector attempts to reduce overheads and accommodate bad debt.

William Keeling

Decree will reform curbs on bank ownership

A NEW decree allowing greater foreign ownership of banks is imminent. At present foreigners are:

- Allowed to take up to an 85 per cent stake in joint-venture banks but these cannot be listed on the stock market.
- Barred from buying shares in domestic private banks, including those listed on the stock market

The new decree is set to:

- Permit joint-ventures to float shares, of which foreign investors may purchase up to 49 per cent.
- Allow foreigners to purchase up to 49 per cent of quoted domestic private banks.
- Allow state-owned banks to list up to 49 per cent of their shares. Of the listed shares, foreigners will be allowed to buy up to 49 per cent.

ISLAM

Real and symbolic concessions

Indonesia has the largest Moslem population in the world: some 90 per cent of its 183m citizens

"RIGHT – We're Moslems" declare the stickers on car rear windows in Jakarta, in a sort of Islamic counterpoint to the "Honk for Jesus" message seen on the highways of America.

Two statements are commonly made about Islam in south-east Asia. The first is that Indonesia has the largest Moslem population in the world, with 90 per cent of its 183m people professing the Islamic faith; the second is that the Islam practised in Indonesia and Malaysia is much milder than the Middle Eastern brand.

Both statements are broadly true, but they gloss over the great diversity of Indonesian and Malaysian Islam, a diversity which encompasses radical as well as moderate and mystical tendencies.

Only this month Mr Abdul Fatah Wiranagapati, a 69-year-old Moslem fundamentalist linked to a separatist movement in the northern Indonesian province of Aceh, was sentenced to eight years in jail for attempting to set up an independent Islamic state.

Aceh's mosques overflow with worshippers each Friday, the Moslem holy day, and resentment of the central government in Jakarta has helped to fuel Islamic fundamentalism.

In the nearby Malaysian state of Kelantan, the Parti Islam is attempting to introduce Islamic criminal law in defiance of the central government's view that such a move is unacceptable in a multiracial and multi-religious society.

On the main Indonesian island of Java, Moslems opposed to gambling recently protested against the introduction of a lottery. Last month saw the opening of the country's first Islamic bank, Bank Muamalat Indonesia.

The rise of Islamic consciousness over the past decade – more and more women wear Islamic scarves, for example – has prompted President Suharto and his supporters to emphasise the country's Moslem identity and to make several real and symbolic concessions to Moslem groups.

President Suharto encouraged the formation two years ago of the All-Indonesia Association of Moslem Intellectuals (ICMI) to bring together loyalist Moslems under the leadership of Mr B J Habibie, the minister responsible for research and technology.

Last year, Mr Suharto and his wife undertook their first pilgrimage to Mecca, earning him the title "Haji" (one who has been on the Hajj) and the honorary first name "Mohammed". He was also a supporter of the new Islamic bank.

The complex forces of Islam are evidently regarded as a useful counterweight to the military establishment and the extent to which the authorities are guilty of political opportunism has now become a matter of public debate.

A mass prayer in April for President Suharto's re-election became so controversial after the event – particularly when a number of Islamic groups said to have given their support to the prayer denied involvement – that the president was forced to distance himself from the organisers of the rally.

"The president relies more and more on the Islamic movement," says Mr Abdurrahman Wahid, moderate leader of the country's largest Moslem organisation, the Nahdhatul Ulama (NU).

"But the problem now is that when a rift takes place between the president and the armed forces then those people who would like to formalise Islam in state life try to manipulate the gap to make the president dependent on them. This is the sorry state we are now in... I'm concerned that this kind of manipulation will encourage the fundamentalists to come up."

Mr Suharto is well aware of the dangers of the somewhat unpredictable Islamic card that he has played in the recent election campaign.

Islam was brought to Indonesia by traders from Arabia and Persia

He deliberately emasculated political Islam after the overthrow of President Sukarno in 1965, forcing all the Moslem parties into the new United Development Party (PPP) and framing the non-confessional official political philosophy of "Pancasila".

More recently, Mr Suharto's "New Order" government has discouraged Indonesians from studying in countries such as Saudi Arabia where they might absorb extremist Islamic ideas. Students say they have been told that there are good Islamic studies courses in the US and Canada as well as in the Middle East.

"The New Order de-politicises Islam and de-Islamises politics," says Mr Wahid, whose NU organisation is thought to have some 35m supporters. "But at the same time the government needs legitimacy from Islamic groups for its programmes – like family planning for example."

The moderate, mystical strain in Indonesian Islam remains strong. Islam was brought to Indonesia by traders from Arabia and Persia from around the 14th century, and orthodox Moslems, known as "santri", are numerous on the coasts of Sumatra, Sulawesi and Kalimantan. In Java, however, many of the poor are classed as "abangan", Moslems whose beliefs are mingled with pre-Islamic Javanese mysticism as well as Hinduism and Buddhism.

Leaders of the Islamic Association of University Students (HMI) – which took over the gloomy Jakarta offices of the banned communist party – reject the violent style of Iranian or Afghan Islam and say they do not even mind about the lottery.

"We want to become Moslems of intellect and professionalism," says Ms Lena Mariana Mukti. "We are very tolerant. Our relations are very close with other religious groups. For example after the Dili incident [when Indonesian troops shot dead at least 50 pro-independence demonstrators at a funeral in predominantly Christian East Timor] we went to demonstrate in the street."

Mr Wahid reckons there is a core of only about 5,000 active Islamic fundamentalists in the country, but he is under pressure from radicals within his own organisation to take a stronger stand for Islam, and profoundly concerned about Saudi-funded efforts to confront the supposed "Christianisation" of society, an issue he regards as dangerously divisive.

"I was surprised one day when my eight-year-old daughter said she was on the same bench as a Christian girl at school," he said. "Eight years old and already talking about things in religious terms! It's not healthy for Indonesia... Ten years ago there was no word of 'Christianisation' in the mosques; now there's plenty."

Mr Wahid distinguished himself as a Moslem by defending Mr Salman Rushdie's right to free speech after Ayatollah Khomeini had condemned the British writer to death for alleged blasphemy in his novel The Satanic Verses.

He believes that Islam should be a democratising rather than an anti-democratic force and, in the face of harassment from the authorities, he chairs the Forum for Democracy group.

"I saw the hanging of Jews in Baghdad in 1969 – 14 of them," he says. "That's when I decided to go for democracy... We don't want to divide people into Moslems and second-class citizens. What happens in Iran now, or Saudi Arabia? Non-Moslems have no rights at all.

"As long as we're given the right to explain the human side of Islam, then I'm convinced that Indonesians will always be moderate Moslems," he says.

Victor Mallet

SULAWESI

Social life centres around funerals

ON Friday morning in Rantepao, capital of Tana Toraja in Sulawesi, the market comes to life. It is the day farmers bring their livestock to sell – buffalo, pigs and chickens – and the market, with its cacophony of farmyard noises and sharp smells, reflects the agricultural heart of Sulawesi.

The farmers make their way from hillside homes, past thousands of acres of terraced paddy fields and small clusters of coffee, cocoa and clove trees. As an admirer of sows, I searched out the pig section of the market; Indonesia is the world's largest Moslem country but the people of Tana Toraja are predominantly Christian and have an affinity for pork.

With their coats of dark, coarse black hair, the pigs are brought to market trussed up in twine and fixed on their sides to large bamboo trays, squealing loudly. Piglets fetch about Rp50,000 ($25), while adult pigs cost as much as Rp200,000.

In a small covered square at the centre of the market lay about 150 pigs, their distressed trotters twirling in the air. The largest sow needed four men to be carried and must have weighed in at more than 20 stone. It brought a tear to the eye to imagine that the Empress of Rantepao was destined for the platter.

Social life in Tana Toraja centres around funerals which, while presided over by Christian priests, are rooted in traditional religion and have as their centrepiece the slaughtering of pigs and buffalo.

Families may save up for months or years for the funeral, keeping the deceased wrapped in cloth, waiting in a back-room. This also allows relatives living outside the district to make their travel plans. The largest funerals will be witnessed by several hundred relatives.

Dozens of pigs and buffalo may be slaughtered and poorer families may take years to pay off the debt – a buffalo can cost Rp5m, more than four times Indonesia's annual per capita income.

Government officials now attend funerals to collect a tax on each slaughtered animal but funerals have become, if anything, more lavish. They are also, with the broad support of the local people, an important tourist attraction.

"I was sat down by the grandmother of the deceased, a 10-year-old boy, who explained to me how the child had died of an illness, showed me the coffin and led me through the funeral ceremony," said one tourist.

A sanguine view of death is at the heart of the region's cultural identity which, despite recent generations leaving the region in the search for wealth, remains strong. In part this is due to its past isolation in the once remote hills of Sulawesi; it was only in 1905 that the Dutch colonisers subdued the area after a two-year war and forced it into a wider world.

It remains to be seen how the region will cope with the demands of the modern world

By the side of the road near the village of Lempo hangs a sign which reads "Baby tree graves, 900 metres". Down a red earth track and across a stretch of vivid-green paddy field is a small copse. In the trunk of a hardwood tree were dug three small cavities, closed off by rattan patchwork.

Babies which die before teething are placed into the cavities; eventually the trunk will grow around the grave, embracing the child's corpse.

Elders from noble families – Tana Toraja historically has a class system, now dying out – are buried in chambers chiselled into large rocks which scatter the landscape or in chambers in mountain cliffs. Outside the chambers, life-size wooden effigies are placed.

It remains to be seen, however, how the region will cope with the demands of the modern world. Several large hotels are currently being constructed and it will have to come to terms with the negative aspects of tourism – foreigners wielding cameras – as well as the benefits of increased foreign exchange.

Modern influences are already noticeable in the construction of new buildings. Tana Toraja is reknowned for its Tongkana homes; wood-panelled houses with large saddle-shaped bamboo roofs which curve sharply up at each end. Raised on poles, they are a glamorous sight, with gaily-painted walls and a central pole bedecked with the horns of buffaloes.

The houses are an important symbol of wealth but they are also uncomfortable, with tiny windows and little ventilation. The new monied class often build airconditioned bungalows beside the traditional house, or come up with an architectural mish-mash placing the old Tongkonan structure atop a new concrete residence, like a cherry on a cake.

What political demands of the region there might be – such as more local autonomy – are kept firmly beneath the surface by Indonesia's inflexible political system. Whereas the political campaign for the June 9 election brought millions to the streets in Jakarta, in Rantepao life seemed to drift on by. Either the region is solidly behind the ruling Golkar party, or disillusion has turned to apathy.

However, with the mountain water slowly trickling through the paddy fields, buffalo lazily submerged in streams cooling off after a hard day's work and pigs snuffling contentedly in their stys, it is difficult to believe that anything but tranquility is brewing in Tana Toraja. It is a region resting in peace.

William Keeling

About 4,000ha of Java forest reserve was apparently included in a mining concession

Jakarta market stall: Some 7,000 different kinds of fish are eaten in the archipelago

□ ENVIRONMENT

A patchy record

Unlike Brazil or Malaysia, Indonesia *has kept a low profile in* international environmental politics, but neither Jakarta nor the outside world can afford to ignore the importance of the country's forests and seas for national economic growth and for the global environment.

"Indonesia is probably the most important reservoir for biodiversity in Asia," says Ms Marty Fujita, director in Indonesia for the Nature Conservancy organisation of the US. "It's basically the Brazil of Asia."

Indonesia, according to a draft biodiversity action plan for the country, makes up 1.3 per cent of the earth's land surface but hosts 10 per cent of its flowering plant species, 12 per cent of mammals, 16 per cent of reptiles and amphibians, 17 per cent of birds and more than 35 per cent of fish species. The human inhabitants of the archipelago use an astonishing 7,000 different kinds of fish as a source of protein, the report says.

Although the government has eschewed the confrontational tactics used by Dr Mahathir Mohamad, the prime minister of neighbouring Malaysia, in his negotiations with foreign interlocutors, most Indonesians share his view that economic development is more important than protecting *the environment for its own sake.*

For Indonesians, therefore, the main *question is not whether the country's* natural resources should be exploited, but whether the exploitation *is sustainable in* the long term.

On paper, *the situation does not look too* bad. The export of timber products is one of the country's largest foreign exchange earners and Indonesia has already set aside a laudable 11 per cent of its territory for conservation areas and has outlined an ambitious strategy which combines exploitation and protection.

Of the total land area of 193m hectares, 144m ha are classified as forest, of which 66m ha will be selectively logged. 48m ha will be preserved intact and 30m ha is being removed to make way for agriculture, settlements and industry.

Population growth is under control and the government has recently established the environmental impact management agency (Bapedal) to enforce environmental regulations which are in the *process of* being strengthened.

On the ground, however, Indonesia's environmental record is patchy at best and *its statistics questionable. Government* agencies, even if they have the will, lack the money and the *manpower to enforce* the law.

Two conflicts publicised by local pressure groups and reported in the Indonesian press in the space of five days illustrate the problem. The first concerned a government plan to convert a 35,000ha forest reserve in south Kalimantan into a timber estate, instead of attempting to repair the damage, on the grounds that it *was already degraded.* The second was about 4,000ha of forest reserve in Bogor, Java, which had *apparently been included* in a mining concession.

Across the country, mangrove swamps have been turned into prawn farms, coral *reefs have been dynamited and* rivers have been polluted. Jakarta is suffering from the sort of traffic congestion and air pollution now common to several south-east Asian capitals.

The formation of the Indonesian Business Council for Sustainable Development is regarded by some environmentalists as something of an empty gesture, and the prompt naming of Mr Mohamad Hasan, a wealthy logging concessionaire and associate of President Suharto, as one of the *group's patrons, has only reinforced that* view.

*Mr Emil Salim, State Minister of Popula*tion and Environment, believes loggers are *in a strong position "because they are the* number one foreign exchange earner of Indonesia", but he rejects the suggestion that businessmen such as Mr Hasan can bend the rules to suit them.

"That he has influence I agree," Mr Salim said in an interview. "That he dictates policy I do not."

Mr Salim points to water pollution control as evidence of the government's seriousness in tackling environmental issues. Under the "Prokasih" programme, the government concentrated on industrial pollution of 25 rivers in 11 provinces and agreed on effluent targets with thousands of companies.

After two years, 400 companies, some of them foreign, failed to meet the require*ments and were given a warning.* Of those, about 50 continued to flout their agree*ments and their names* were published in the media. Court cases against three com*panies were being prepared, Mr Salim* said, and the companies had asked for more time to comply.

Critics dismiss the whole process on the grounds *that it is far too accommodating* towards polluting industries and sets only minimal requirements. One Indonesian economist, asked whether companies were becoming concerned about environmental pressures, *replied bluntly:* "No."

As in other developing countries, the environmental *awareness* of the urban middle class is several steps ahead of the government's *willingness or ability to* enforce adequate environmental controls. "You notice it in letters to the press," says Mr Salim. "People are more conscious, even common people. If there *is pollution,* sometimes they raise hell."

Indonesians and foreigners alike agree *that* "sustainable development" is the desired goal but it will take *time to bridge the gap* between Indonesian and foreign interpretations of what is actually taking *place at* the moment.

Few outsiders would agree that Indonesian *forests are* being sustainably logged and the World Bank has recommended the *payment of higher* fees by concessionaires, the granting of concession terms longer than 20 years and *closer* to the 35-year cutting cycle so that loggers have an incentive *to manage the forests* prudently, and the introduction of interest-bearing performance bonds to *ensure the* application of sustainable forest management practices.

According to some environmentalists, Indonesia's growth rate of 6.7 per cent in 1991 would be a mere 2.5 to 3 per cent if the depletion of the country's natural resources were taken into account. But even if one accepts the validity of such calculations, the difficulty for outsiders is that most Indonesians, like the Thais *before them,* would say that economic growth makes the depletion more than worthwhile.

Victor Mallet

□ INTERVIEW

Lessons from deregulation

Dr Radius Prawiro, Co-ordinating Minister for the Economy, Finance, Industry and Development Supervision, talks to William Keeling and Victor Mallet

Radius Prawiro: We would like to be more competitive

FT: What future economic deregulation is planned and what lessons have you learnt from *deregulation to date?*

Radius: The deregulation programme for the coming weeks will be in the field of trade and industry. It is possible that we will reduce our tariffs for a number of products.

But deregulation is an on-going process and you cannot do everything at once.

FT: Will tariff reduction apply across the board or only to Asean (the Association of South East Asian Nations)?

Radius: We would like to be more *competitive. Not only are* we aiming at intra-Asean trade but *also in general* we have to reduce tariffs.

Last year we lowered tariffs from an average 40 per cent to 30 per cent.

FT: Could you have a further cut of 5 per cent or 10 per cent?

Radius: To be frank, we have *to bargain with so many* people, with so many producers, with so many manufacturers.

Of course, we would like to go as far as possible but those people say "Well, I am ready to go right now, but other companies aren't ready yet".

FT: Critics say deregulation has been limited, such as when a state monopoly is transferred to a private monopoly. What are your concerns on private monopolies, in particular on cloves?

Radius: It is being reduced gradually.

FT: *It still retains the sole* right to sell cloves.

Radius: Because they have huge stocks and they have to repay the debts of the banks. So they have to sell. The government cannot take over because then who would repay *the debts? They are responsi*ble for repaying the debts.

FT: Are you worried by the growth of imports?

Radius: Yes, we are very worried by the growth of imports. That's why last year when we had an overheated economy we had to cut imports by having a tight monetary policy.

Interest rates increased, so finally instead of having an $8bn current account deficit we had only a $4.3bn deficit.

FT: Isn't a danger of a tight *monetary policy that* it hurts companies which provide export revenue?

Radius: Let me tell you, in 1990 the export increase in non-oil and gas goods was 6 per cent; when we introduced a tight money policy in 1991, exports of the non-oil and gas goods increased 25 per cent.

FT: How will the new banking law affect the banking sector?

Radius: The new banking law will allow foreign equity participation up to 49 per cent in both state and private banks and will give the state banks greater flexibility of management and operation to compete with private banks.

In the case of private sector banks they may want to have a joint venture with foreign banks to improve their management and banking practices.

In the case of the state banks we are *still studying* what will be the most effective and efficient way.

FT: How does the government plan to restructure the state banks?

Radius: The *government* has decided to follow the same capital adequacy *ratio* (CAR) principles as the Bank for *International Settlements,* which is around 8 per cent of total assets.

But it would be very difficult for developing countries right now to jump to that figure, so we have to go step by step.

However, nobody is going to buy shares from the state banks if their capital structure hasn't been improved. The shareholder is responsible for *that, which means the govern*ment has to come up with equity funding. We have in our budget certain surpluses and these can be used for equity.

FT: What is the strategy for containing international debt?

Radius: It is the setting of limits. We try to curb foreign borrowing. In particular, we are not going to finance big projects, except those within the ceilings.

FT: Are you concerned that by allowing large projects to proceed under foreign ownership the strain on the balance of payments will increase?

Radius: It depends on the quality of the borrowing. If you borrow short and use the money here for long-term financing, you get stuck. Since we have a more active private sector, this means that the borrowing by the private sector increases. This we have to be careful of.

FT: Wouldn't you be content *for market forces* to dictate what banks can borrow *abroad?*

Radius: Not this time. We still have to control the borrowing. The appetite to borrow is quite big.

FT: Yet you still have to fund enormous infrastructural projects.

Radius: We are borrowing for this from donors and these are soft loans. It is really big, but it is concessionary with an interest rate below 3.5 per cent.

Part is being *financed* by the *World Bank, which is less* concessionary, but the terms are long compared to commercial borrowing.

FT: How concerned are you about Indonesia's reliance on foreign donors?

Radius: We actually have a negative outflow of capital with regard to borrowing from the so-called donor countries.

We are repaying our debts, around $7bn a year principal and interest. But if we can't borrow from outside it will be very difficult for us to repay the debts.

FT: If donor countries link aid to conditions which you regard as unacceptable, such as *human rights or* a particular view of democracy, might you be unwilling to pay *past debt?*

Radius: No, no, no. Even to the Dutch, we thank them for supporting us for 24 years, we thank them *for* chairing donor meetings for 24 years, and for their efforts to convince other donors to support Indonesia's development programme.

What we do not like is when development assistance has been used to *intimidate us.* This is not good. Human rights is *a topic that can be* discussed.

We are a member of the UN human rights commission, and we are keen to respect human rights.

European Finance and Investment: **Spain**

Pictures: Terry Kirk and Lydie van der Meer

Finance minister Carlos Solchaga (left) is a master of the political game; while prime minister Felipe Gonzalez may need to consider advancing the election date

Predictability is important in an economy as volatile as Spain's, and reaction to the thought that the Maastricht treaty changes might not now be implemented was swift. As the Danish referendum clouds the investment climate and interest rates firm up, writes Peter Bruce, there seems little prospect of the peseta's entering the ERM narrow band this year.

At the mercy of the markets

THE DANISH referendum of June 2 may well help the Spanish government to bring home to the country the fact that it is not the complete master of its own destiny.

The vote rejected the changes to the European Community's "constitution", the Treaty of Rome, decided last December in Maastricht, and sent Spain's equity and bond markets into a tailspin.

Maastricht was important to Spain, not because it contained the seeds of new sources of EC funds, but because it served – before being thrown into doubt by the Danish "no" vote – to lock Spain more tightly into the Community and to increase its chances of becoming, economically, as stable as its stronger EC partners. For Spain, the framework of economic convergence agreed at Maastricht was a sort of guarantee to the people that buy its shares, its currency and its industries that its economy had become predictable.

It is hard to overstate the importance of predictability in an economy still as volatile as Spain's, and the reaction to the Danish vote, and the prospect that the Maastricht treaty changes just might not now be implemented was swift and horrible. While the Spanish authorities, bankers and businessmen know that the country's fortunes are at the mercy of the markets, ordinary Spaniards may still not appreciate it.

Spain has big public deficits – an accumulation of spending overruns on central and regional government, as well as institutional – which last year totalled $25bn. In the first four months of this year alone, those deficits totalled $6.5bn, a 54 per cent increase on the same period last year.

To finance them, the government has three main sources of funds. It raises taxes, borrows from the central bank, and sells bonds and Treasury bills. But tax income has fallen as the economy, responding to government efforts to beat inflation, has cooled. And central bank borrowing is essentially a mirage, as the state has to end each year with a zero balance at the Bank of Spain.

Most of the Treasury's recent efforts to secure stable financing have concentrated on trying to end its dependence on *Letras del Tesoro*, one-year T-bills, which were popular with local and foreign investors when interest rates were even higher than they are now, but placed a heavy burden on the Treasury every 12 months when the bills matured.

For the past two years, building on the promise of stability in the EC's programme of economic and monetary union and the longer-term confidence of formerly speculative investors, Madrid has been increasingly successful in selling longer-dated paper. Its long bond is a 10-year *obligation*, which has proved especially popular with the state and the markets in which it is traded. For the state, selling longer-dated bond at the lower interest rates that Emu implies, means cheaper financing. For the markets, the promise of interest rates falling keeps the bond price buoyant.

In all, the Treasury has managed radically to shift the burden of financing from short to medium and long term in the past few years. At the end of 1989, 73 per cent of outstanding debt of Pta12,722bn ($136.8bn; £74.6bn) matured in a year. By February this year, with outstanding debt at Pta16,606bn, one-year instruments accounted for just 55 per cent of the total.

When the Danes said "no" to Maastricht, yields rose nearly a full point, and prices collapsed as the markets charged out of the long bonds, like a matador suddenly separated from his cape, and showed no sign, at least in the two weeks after the Danish vote, of coming back.

If market sentiment continues to depress this bond for a long time, the consequences for Spain could be quite serious. It could force the government to begin depending again on short-term debt, which would increase its financing costs just at the time when it is trying to demonstrate to its EC partners that its ambitious deficit-slashing convergence programme for Emu is credible.

But even this might not have alarmed Spaniards until the finance minister, Mr Carlos Solchaga, mentioned that he was thinking of raising withholding taxes on personal incomes, in an effort to boost the state's coffers and drain liquidity out of the system.

Mr Solchaga is a master of the political game in Spain, and it may have been that he was merely trying to frighten his own free-spending cabinet colleagues (and welfare enthusiasts in the Socialist party machine) into a more realistic understanding of what, ultimately, the deficits could involve if they are not addressed. With a general election now just over a year away at the most, taking money out of the pockets of voters earlier than it would normally could be a direct threat to the government's chances of being re-elected with a majority.

Of course, a cheap equity market and cheap public debt might eventually be seen as an investment opportunity by the markets, and there are other ways to trim the deficits. The government, for all its orthodoxy, remains ambivalent about privatisation, and is loath to do much more than sell off, piecemeal, stakes in highly profitable companies with rock-solid markets. It could also simply stop spending as much as it does; but it is hostage to a slew of special interests, particularly in the 17 autonomous regions.

Nevertheless, Mr Solchaga had been able to draw a straight line between the Danish vote and Spanish pockets. Anything that threatens the slow fall of Spanish interest rates will have an impact on ordinary people. One of the things that does so is the prospect of EC economic union not happening.

Theoretically, one way out of that dilemma may be to opt out of the commitment to try to be a founding member of Emu in 1997 or 1999, to take some of the deflationary pressure off the economy and, without renouncing the drive to lower inflation and interest rates, try to arrive at convergence at a pace the country – its unhappy unions and its nervous businessmen – can deal with without having it imposed on them.

But it would take another government to do that. Any turning back by the Socialists would be regarded, inside and outside the present administration, as a failure.

The aftermath of the Danish referendum, then, is clouding the investment climate in Spain. As interest rates firm up in secondary markets, there seems little prospect of the peseta entering the narrow band of the European Monetary System's exchange rate mechanism – where it could fluctuate only 2.25 per cent against the other member currencies – this year.

That, in turn, raises some doubts about whether it could be done by the end of next year, by which time Madrid is committed to narrow band membership. Many economists believe that, with existing currency parities in the ERM, Spanish interest rates would need to fall from an official 12.4 per cent to around 10.65 per cent in order to be able to remain, without support, within a 2.25 per cent band.

The problem Madrid faces is time. None of its difficulties is insurmountable. The government and the Bank of Spain will no doubt do their utmost to prevent rates rising as a result of the current uncertainty, and may well succeed in holding the ring. But market nervousness could delay progress in lowering interest rates.

If this situation continues, the prime minister Mr Felipe Gonzalez, may begin to think about calling an election before his deadline in October next year. Any very tough action to cool inflation further and to force interest rates down may, of necessity, be extremely unpopular and difficult to implement before an election.

But this year's political schedule is already very full, and Mr Gonzalez's instincts would be to play out his full third term. A budget has to be presented by October, when the trade unions are also threatening to hold their second general strike of the year, in protest at cuts in unemployment pay.

Moving soon after October would mean a winter election, when the country's mood is traditionally grey. Spring 1993 is possible, but by then much will depend on whether the unions have been able to mobilise support against the government's benefit cuts.

If Mr Solchaga does, in fact, raise retained taxes, winning that public support might not be so difficult, and Mr Gonzalez will then be facing an extremely tight schedule for entry into the narrow band of the ERM as the second phase of economic and monetary union is triggered on January 1, 1994.

IN THIS SURVEY

Tom Burns examines the spectacular growth of mutual funds

Tax changes prove to be a spur to long-term savers

REPSOL, SPAIN's state controlled oil, gas and chemical conglomerate, placed three-year convertible bonds worth Pta80bn (£435m) with small domestic investors last month, despite the fact that it had scarcely bothered to advertise the issue.

Originally the issue was to have been Pta25bn, but such was the demand for Repsol paper that the conglomerate successively raised its volume to Pta50bn and to Pta80bn.

What Repsol did was to concentrate its energies on fund managers. The conglomerate, using the considerable muscle that it exercises in the domestic corporate scene, wrote into its contract with the managers of the issue that those who actually sold the bonds were entitled to a handsome 2.75 per cent commission.

Repsol had placed a limit of a Pta8m investment, which allowed individuals to buy a maximum 800 bonds priced at Pta10,000. Fund managers, stimulated by the commission, accordingly bought major blocks of bonds and energetically started spreading them around their clients. Perhaps as many as 300,000 small investors have ended up owning the conglomerate's bonds.

"Repsol issue went great guns, but it has the *fondos* to thank for its success," says Mr Francesc Guardans, chief executive of Société Générale de Valores, the French financial group's Spanish stockbroking arm.

Repsol had indeed successfully identified the potential of a key development in Spain's financial markets. In its annual report the CNMV, the Madrid-based stock market commission, noted that 1991 had marked the "authentic launch of collective investment in Spain".

Between 1990 and 1991, the number of mutual fund institutions increased from 550 to 662, the total number of their participants doubled from 570,000 to 1.1m, and the volume of their assets held by the institutions quadrupled from Pta1.502bn to Pta4.244bn.

The growth of mutual funds

	Number of institutions	Assets (Ptam)	Participants (000s)
1985	231	308,588	286.2
1988	403	1,057,378	861.2
1990	550	1,502,513	570.0
1991	662	4,244,458	1,145.1

Source: CNMV

Mutual fund leaders

Bank	Volume (Ptabn) 31/3/92	Market share %
Gp Santander	699	13.09
Grupo BBV	673	12.71
La Caixa	485	9.10
Bankinter	331	6.26
Argentaria	286	5.31
Caja Madrid	233	4.36
BCH	223	4.17
Banesto	180	3.41

Source: 'Expansion'

The spectacular increase was the result of a substantial change in *the fiscal treatment* of mutual funds that was aimed at encouraging long-term saving, which struck a immediate and deep chord in the public.

In a major publicity campaign, Banco Santander and Banco Bilbao Vizcaya, BBV, artfully sold the *fondos* that they had created in the wake of the legislation as virtual tax havens. Between them, Santander and BBV have captured some 26 per cent of the total funds under management.

In 1990 the total assets of mutual funds in Spain represented 3 per cent of GDP, whereas in France the volume of such assets is the equivalent of 22 per cent of the GDP, and in the UK it is 8.4 per cent. By the end of 1991, Spain's mutual funds represented 7.75 per cent of the GDP, a higher proportion than in Germany, Italy and Belgium.

The CNMV asserted in its report that the funds will continue to increase in both participants and assets in the future, "although the rhythm of growth could be a more moderate".

Madrid brokers Maxwell and Espinosa believe the growth will be sustained, and estimate that the total of assets by the end of this year may virtually double to between Pta7.000 and Pta8.000.

The thinking at the CNMV, and among the Spanish broking community, is that the equities market will in time be a clear beneficiary of the major build up of the funds. At present, this is *not the case, for* less than 5 per cent of the funds under management are invested in the stock market.

What the analysts note, however, *is that the funds are continuing to grow* at a time when the government is lowering its borrowing requirements. Government borrowing increased by Pta1.700bn in the last six months of last year, but the net increase of total borrowing this year is unlikely to be more than Pta1.200.

Maxwell and Espinosa report that, at the height of the government's demand for cash last year, domestic fund managers were already left short of fixed-income paper, and that the gilt yields in secondary markets were being constantly bid down. This situation is likely to become more acute this year, due to the government's reduced requirements, and fund managers are therefore going to be forced into diversifying.

What the markets are obviously hoping for is that fund managers will begin to look at high-yield equities. In this respect, Repsol's convertible bonds are a timely taster for such an event, for the issue seeks, by way of an 8 per cent discount, to have almost all the new bond holders converting their paper to shares at the first opportunity, which will be in September.

Mr Juan Vilanova, deputy director of BBV Interactivos, believes that domestic fund managers will gain an increasing awareness of the stockmarket and begin shifting part of their assets towards it.

In a New York or in a London, some 40 per cent of a mutual fund is invested in equities. Nobody realistically expects such a ratio in Spain; but nor does anyone believe that the present mere 5 per cent of domestic funds that is invested in the *bolsa* will continue to be the norm.

Have you heard? A change in the fiscal treatment of mutual funds struck an immediate chord with the public

Derivatives: the tale of two cities has ended in a compromise

Divided Meffsa looks both ways

AFTER A squabble that pitted Madrid against Barcelona and which dragged on for more than two years, Spain finally got its future and options markets act together last December.

Both cities had tried to be all things to all men, competed against each other and ended up delivering nothing very much to anybody.

In December's *compromise,* Madrid and Barcelona jointly backed an overseeing holding company called Meffsa (the Mercado de Futuros Financieros SA), which is based in Barcelona, and each obtained that part of the action which was most suited to it.

The need to sort out the rivalry was made all the more pressing by the fact that everything else was more or less in place to aid the rapid expansion of derivatives in Spain. The domestic financial markets had been fully liberalised, thus accelerating the already strong inflow of foreign investment, and domestic mutual funds were growing at a spectacular pace.

Meffsa was effectively segmented into Meffsa Renta Variable (RV), which deals with equities and is located in Madrid; and Meffsa Renta Fija (RF), which is headquartered in Barcelona and deals with fixed-interest security and currency contracts.

The sensible compromise recognised Madrid's dominant role in the Spanish stockmarkets. The home of on-line trading, Madrid's *Bolsa*, towers over its sister markets in Barcelona, *Bilbao* and Valencia, and accounts for more than 80 per cent of the Spanish stockmarket business.

In locating security futures in Barcelona, the compromise was also an appropriate nod to this city's inventiveness and to its determined ambition to establish a niche for itself in Spain's financial sector. The purposeful software investment undertaken by Barcelona's Meffsa RF has drawn plaudits from clients and could earn it high additional returns.

One of the more striking aspects of the Barcelona operation is that it has a 16-strong team allocated to its systems, 12 of whose members work fulltime to develop the software. Meffsa RF is negotiating the sale of its systems to potential futures markets in Argentina, Malaysia, Norway and Portugal.

> The need to sort out the rivalry was pressing, because everything else *was in place for the* expansion of derivatives

Barcelona's star product is its 10-year notional government bond, which was launched in March. Meffsa RF has flopped, however, in its attempt to develop currency contracts in pesetas/dollar and pesetas/Deutsche Mark. The varying fortunes illustrate the *start up difficulties.*

The fixed-interest business, which has drawn in 14 marketmakers so far, has a lot of room for growth, for only *some 10 per cent of the existing* mutual funds have accounts open at Meffsa RF.

This low proportion reflects, in part, a current administrative limbo, as the Barcelona market and the fund *managers* await full clarification from the market regulator, the CNMV, on norms over hedging. As soon as this hurdle is crossed, *Meffsa RF rightly believes that* every fund manager who wants to be considered a professional will have to maintain open a futures account.

Liquidity has, however, demonstrably failed to materialise in the currency futures market, which presently accounts for as little as 1 per cent of Meffsa RF turnover. There are just three marketmakers dealing in currency futures, and they offer no competition to the existing over the counter (OTC) swaps favoured by the big clearing banks.

Meffsa RV, in Madrid, began offering contracts in January on Ibex 35, the Spanish stock market index which lists the 35 biggest quoted companies. In September, it hopes to offer *contracts on individual* stocks, some of which, such as the telecommunications giant Telefonica, the energy group Repsol and the utilities Endesa and *Iberdrola, are* well known to foreign investors.

The inevitable problem that Meffsa RV faces is that it is too narrow. This is not surprising, for it mirrors *the* existing reality of the Spanish equities *market.* It is a difficulty that is nevertheless exacerbated by a widely shared view that Spanish managers have still a lot to learn about hedging.

"The market is already narrow, but the lack of skills among certain corporate treasures is making it even narrower," says Mr Ian Triay, of Lloyds Bank's corporate division in Madrid.

Mr Michael Hyman, investment director of GH Asset Management in London, criticises a "reluctance" that he perceives among Meffsa's *marketmakers to live up to* their title. He faults them for failing to establish two-way prices, to match buyers and sellers and, in the final analysis, to make markets.

"When people come here with their presentations, I tell them: 'You don't have convince me to invest in Spain, because that's exactly what I want to do'," says Mr Hyman. "I end up telling them to make things more efficient and to create a market that will allow in people like me."

In their defence, Meffsa executives say that these are still early days in what *remains a* fledgling market. They have done the hard part, which is to put the show on the road.

Tom Burns

The 'no' factor

An ill wind wakes up the hedgers

ALL FUTURES and options markets thrive on financial chaos, and the Barcelona-based Mercado de Futuros Financieros SA (Meffsa) put on a lot of weight when Denmark's "no" to Maastricht, on June 2, painted the Spanish bond market as distinctly bearish.

Until that referendum, Meffsa's record number of daily contracts on notional three- and 10-year bonds, priced at Pta10m (£54,000), had been set on December 19 last year and had totalled 17,000. On June 3, 43,770 fixed-income contracts were traded.

Fearing that economic and monetary union (Emu) within the European Community was *in doubt,* as a result of the Danish "no", investors had taken a particularly jaundiced look at their Spanish bonds.

Spain became even less the flavour of the month when the subsequent French decision also *to stage a Maastricht referendum* fuelled the doubts of the Eurosceptics.

The investors had, after all, entered the domestic bond *market because of the* so-called Maastricht factor – a codeword for a belief that Spanish interest rates would fall as the Spanish economy *converged with those of northern* Europe, in order to meet the Emu criteria agreed at the EC's Maastricht summit last December.

If, in the thinking of investors, Maastricht was being questioned, then Spanish convergence was likewise in doubt and Spain was quite definitely off the menu.

The average yield on Spanish government paper had stood at 10.89 on June 2, and it shot up to 11.06 the following day. *By June 9,* it stood at 11.48. The price of the 10-year bonds, the favourite target of foreign investors, dropped by more than three points in just *four days, falling from* 96.55 per cent to 93.25 per cent.

On June 3, Meffsa's record-breaking contract day, the marketmakers' limit of a 200 *basis points spread* was already stretched to snapping point, when Wall Street opened at 2.30 pm *local* Barcelona time and began to drag bond prices down further.

At 2.45 pm, 15 minutes before the 3 pm cut-off time when *the Barcelona futures* market shuts down its computer terminals, Meffsa obtained authorisation from the Bank of Spain, the monetary regulators, *to widen its* spread to 230 points.

Meffsa was thus very much in its element, doing exactly what it is supposed to do, as it matched investors in a hurry to sell their bonds with speculators who believed that prices had touched bottom and were willing to gamble on a position.

The reckoning came later as the Barcelona futures market *spread the "I told you so"* word. Meffsa is still in its infancy, for it was created in March 1990 and relaunched in December last year as a holding company that based fixed-income and currency futures and options in Barcelona and located futures and options contracts on stock indexes in *Madrid.*

The word was that Meffsa's *business of selling notional* bonds – it trades in the 90-day Madrid interbank offered rate (Mibor 90) and in five-year bonds, as well as in three- and 10-year paper – was the sort *of business treasurers, and fund managers,* should have built into their day-to-day routine of corporate husbandry.

"We had spent a long time telling all these people that they had to hedge against interest rates going up," says Mr Pablo Larraga, Meffsa's manager. In theory, it is all the easier to drive home the message now that the horse has bolted because the stable door was left open.

Meffsa's moral, as it is that of every futures market in fixed income, *is* that the notional bonds, thanks to the marketmakers, trade in far narrower spreads than on the open market; at crisis times, as occured earlier this month, it is far cheaper for buyers and sellers alike to use the services provided by the Meffsa's of the financial world.

The moral is hard to sell when the markets, cosily ensconced in convergence plans, are stable. But when "no's" to Maastricht blow big *holes through such plans, and* the markets, especially sensitive ones such as Spain's, become hyper-volatile, then there should be willing listeners *to the tale that Meffsa* has to tell.

The post-Danish referendum "black week" for the Spanish bond market was a distinctly upbeat one for Meffsa. In time, it may come to be looked upon as the true foundation date of *the domestic futures and* options market, as the week that woke up hesitant hedgers among the corporate community and jolted them into into *acquiring new treasury skills.*

Tom Burns

THIS WAS supposed to be a bad year to be a big bank in Spain. Mr Luis Vals, the enigmatic co-president of the world's most profitable bank, Banco Popular, mused late last year that 1992 would be a "sabbatical year" for Spanish banks as the economy slows and bad debts mount up.

But, in relative terms at least, the 500th anniversary of the creation of a unified Spain is not turning out that badly for most of the big five private-sector banks – Banco Central Hispanoamericano, Banco Bilbao Vizcaya, Banco Santander, Banco Popular and Banesto. The mood at the big new state-owned conglomeration of public sector banks, Argentaria, which includes Banco Exterior, is positively buoyant.

Mergers and the rush to create new products are changing the face of banking, says Peter Bruce

The big five quietly do their own thing

The problem with making predictions about the big Spanish banks is that they are no longer a colourless mass. The mergers of the past four years (Bilbao and Vizcaya, to form BBV; Central and Hispano, to form BCH), the inexorable shrinking of margins in their traditional retail business and the rush to create new products and services is changing the face of Spanish banking.

The big banks are going their separate ways, each quietly becoming identifiable for what it is doing that is different, rather than, as in the past, for how they are managing to shadow each other.

■ Banco Santander is reinforcing its position as the country's most aggressive bank. In 1989, it was first to offer interest on current accounts, igniting a fierce battle for new customers that drained the resources of most of its large rivals.

Last year it was slower off the mark than the BBV to launch mutual funds but quickly became the market leader. It has scorned mergers with local banks to concentrate on buying abroad. It has 10 per cent of Royal Bank of Scotland, and has also bought 13 per cent (with an option on another 13 per cent) of First Fidelity in the US. The bank is accumulating large cash positions. First quarter 1992 pre-tax profits of Pts28.6bn (£155m) were up 19.2 per cent.

■ Bilbao Vizcaya is over the worst of its 1988 merger. Staff and branches have been deeply cut, and a further 3,000 jobs are to be lost. The bank has expanded its interests in profitable foods and electricity distribution markets, and is entering communications.

GEC Capital is a new shareholder, through which BBV plans to branch out into the private credit card business in which GEC Capital is a world leader.

It is also establishing a large presence off the US market, in Puerto Rico. It is shedding peripheral banking units and may this year be hit by a drop in extraordinary profits. Excluding these gains, group pre-tax profits rose 11 per cent in the first quarter to Pta25.9bn.

■ Central Hispano, merged last year, still faces a daunting task in trimming duplicated branches and staff. The bank has also been born with a huge industrial empire vulnerable to industrial business cycles but also capable of generating occasional large profits.

Its industrial strategy remains, however, unclear while management of the two merged banks get accustomed to each other. First quarter 1992 pre-tax profits were up 4.5 per cent at Pta18.7bn.

■ Banco Popular sails along doing what it always has – making lots of money. It is not tempted by industry nor by mergers, and concentrates on retail and niche services. It processes, for instance, all Spanish air ticket transactions. Pre-tax profit in the first quarter was up 9 per cent at Pta23.5bn on a third of BCH's assets.

■ Banesto is being tortured by its large industrial group, where profits fell 48 per cent last year. The banking group, though, may be beginning to reap the rewards of huge investments in computerisation, though the biggest boost to profits last year came via its new Portuguese acquisition, Banco Totta.

Financial group first quarter pre-tax income rose just under 1 per cent to Pta17.2bn after a 54 per cent rise in provisions and write-offs.

■ Banco Exterior has absorbed the state's industrial credit bank BCI and, itself, been pooled with the rest of the state's financial institutions under a new holding company, Argentaria.

The Government is thinking of privatising more of Exterior (it now owns 69 per cent of the bank) or part of Argentaria. Exterior is still shedding some of the deadweight it inherited with BCI, but reported first quarter pre-tax profits of Pta11.4bn, up 13.6 per cent.

Although it is possible now to tell the big banks apart, they still suffer a number of common complaints and enjoy some similar advantages. Despite efforts to break into fee-earning services, retail business still accounts for around 90 per cent of banking profits in Spain. And the banks with large industrial holdings still tend to force these companies to do their banking business through the owning bank, rather than allow finance directors to seek more competitive arrangements.

The high lending margins enjoyed by Spanish banks mean, though, that they are well cushioned as they try to diversify their banking business and, as many analysts still insist, wait for one last big bank merger in Spain.

Banesto would probably be part of such a venture, but it is hard to see how the other two "single banks", Popular and Santander, could buy it or merge with it without damaging their profitability.

One other possibility is that a major foreign bank could buy all or part of Banesto, but foreigners are much more wary now of the Spanish market.

Market share of major banking groups (%)
(excluding post office and official credit institutions)

	1980	1985	1990	1980=100
BANK BRANCHES				
Private banks	54.8	50.3	50.5	92
Foreign/foreign-owned*	0.3	2.0	3.7	1,371
Savings banks	34.2	35.0	40.8	119
Co-operatives	11.0	10.9	8.7	79
TOTAL ASSETS				
Private banks	70.8	67.0	60.8	86
Foreign/foreign-owned*	negl	8.2	10.1	n/m
Savings banks	26.0	29.9	36.3	139
Co-operatives	3.2	3.1	2.9	91
LOAN PORTFOLIO				
Private banks	75.8	69.9	62.5	82
Foreign/foreign-owned*	negl	10.9	11.6	n/m
Savings banks	21.2	26.6	34.4	162
Co-operatives	2.9	3.5	3.0	104
DEPOSITS				
Private banks	66.0	59.4	53.8	82
Foreign/foreign-owned*	negl	3.7	5.9	n/m
Savings banks	28.7	36.0	42.6	143
Co-operatives	4.2	4.6	3.6	85

*UBS Phillips & Drew calculations, including 1991 acquisitions
Sources: Bank of Spain, Consejo Superior Bancario

The top 10 Spanish banking groups: 1990 (1987 rank)

1990	Equity Pta bn	Assets Pta bn	Deposits Pta bn	Pre-tax profit Pta bn
Banco Argentaria* (7)	485	9,243	3,345	104.0
Central-Hisp† (2 & 4)	709	8,829	5,805	129.0
BBV (1)	550	8,433	5,373	141.5
La Caixa (3)	225	5,627	4,723	20.0
Banco Santander (6)	336	5,346	3,428	96.1
Banesto (5)	293	5,005	3,239	74.5
Caja de Madrid (9)	193	2,549	2,076	38.1
Banco Popular (8)	175	2,387	1,829	67.6
Bankinter (10)	121	1,203	949	26.5
Banca March (20)	138	1,176	948	20.1

*Pro-forma after merger, renamed from CBE, 1987 rank is Banco Exterior's.
†Pro-forma, after merger
Source: UBS Phillips & Drew

Mariano Rubio: decent and honourable, but aloof

Peter Bruce offers a personal view of the central bank crisis

Mr Rubio fights on two fronts

IN A few weeks, the Madrid government will make one of most important economic policy decisions of the year and appoint a new governor to the Bank of Spain.

Six months ago, it seemed a fair bet that the present governor, Mr Mariano Rubio, would be renominated, but his chances of a third term have been overtaken by a ferocious financial scandal.

Briefly, Mr Rubio's modest portfolio – $120,000 – was managed by his friend and broker for 25 years, Mr Manuel de la Concha, a former chairman of the Madrid stock exchange. The money was not to not be invested in any bank.

In the late 1980s, Mr De la Concha applied for a banking licence and, as he met the capital requirements, was given one. He formed Ibercorp, a small financial services boutique – a bank, a stockbroker, and a series of small portfolio companies. It was in one of these, Sistemas Financieros, that he invested Mr Rubio's money.

In the spring of 1990, Sistemas Financieros accumulated vast amounts of its own stock, triggering an investigation by the stock market commission. Soon after the repurchases, the price of Sistemas Financieros stock collapsed, leaving a vast bulk of shareholders to take bad losses. But Mr Rubio had been bought out in the spring, and had been spared financial ruin.

Earlier this year a Spanish newspaper reported the stock accumulations, and accused Mr De la Concha of deliberately favouring the governor. Worse, a list of Sistemas Financieros shareholders whose stock had been bought back by the company was sent to the stock market commission without Mr Rubio's name on it. The names of other well-known Spanish personalities had also been altered.

Few of the Sistemas Financieros shareholders seemed to have been aware of precisely what Mr De la Concha was doing with their money or their names. But the accusations unsettled the governor, and a few weeks after the scandal broke he appeared before parliament to report on the matter and made his first mistake.

Bank of Spain investigators had recently completed an audit of the Ibercorp group, and concluded that it was a highly speculative operation, dedicated to supporting the price of its own stock, and whose net worth was rapidly crumbling. But Mr Rubio, facing members of parliament, told them the group's bank was "in perfect condition".

Mariano Rubio is a decent, honourable man. He offered his resignation soon after the scandal broke. But he is also quite arrogant, or perhaps aloof – traits not uncommon in central bankers. He would not have appreciated being asked questions by a motly collection of MPs, many of whom clearly did not really know what to ask him and were using newspapers as source material.

He did not lie to parliament. The Ibercorp bank's net worth, at the time of his testimony, was positive. But it was falling, and he did not tell them that. Neither, strictly speaking, did he have to.

But by then (late February) the Ibercorp scandal was out of control, and the Bank of Spain report leaked. It also emerged that Mr Rubio's sister was a shareholder in Sistemas Financieros. That was no crime, and he might even have introduced her to it or to his broker. The world is full of bad investors.

At a second parliamentary hearing in June, though, Mr Rubio appeared to compound his initial economies with the truth by refusing to allow parliament to inspect the Bank's audit of Ibercorp.

But the effect was that the central bank governor had told the nation that a bank was in perfect condition when it quite clearly was not. Would he be believed the next time? There was no getting out of the trap he was in.

Mr Rubio was fighting two battles: one personal, the other for the autonomy of the Bank of Spain. Under the rules governing the European Community's drive to economic and monetary union, governments are required to make their central banks independent. That would free them from political interference, especially the manipulation of interest rates to prop up economic policies.

In Spain, the central bank remains a prisoner of government whim. Not even a draft statute of autonomy has been drawn up, but Mr Rubio's predicament has highlighted the dilemma in making a central bank independent: how does a statute accommodate both the Bank's monetary policy role and its role as regulator of the banking industry?

Politicians may be less resigned to losing control of monetary policy, but they will be loath now to entertain a law which puts the banking regulator beyond public scrutiny. But it would be dangerous to allow political access to all corners of the industry. Secrets die young in Spain.

Ibercorp may temporarily weaken the Bank of Spain's case for autonomy in regulation, but the tragedy of the scandal is that Mr Rubio's efforts to strengthen the Spanish banking system, to liberalise it and make it transparent, may now be unrecognised and unappreciated. At a time of great change, only two tiny banks, including Ibercorp, failed under his stewardship.

Ibercorp is not a corruption scandal. It is the story of a rotten, badly run little financial empire that let its clients down. Mr Rubio was one of them.

There is a lot of speculation now about a successor, but only one man stands out – Mr Rubio's deputy, Mr Luis Angel Rojo. The "professor", as he is called by former economics students and by alumni of the Bank's impressive research department, Mr Rojo is a no-nonsense, technically brilliant central banker.

He would guard the Bank from politicians; and any other appointment by the government would smack of political intrigue and an attempt to have a "flexible" man at the top of an independent institution. Ibercorp has not done much damage to the Bank of Spain, and certainly nothing that Mr Rojo's appointment would not heal in an instant.

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The Madrid stock market is in the doldrums as foreigners withdraw, reports **Tom Burns**

No gold from the Maastricht rainbow

THREE YEARS ago, Madrid's *bolsa*, after a long period as flavour of the month, posted an historic high of 325 general index points. Since the summer of 1989, a rotten smell of sorts has emanated from the dominant domestic stock market, as well as from Madrid's puny sister *bolsas* in Barcelona, Bilbao and Valencia.

Madrid hovered close to 290 in the second quarter of last year, but it has still not recovered its pre-Kuwait invasion index of close to 300. Currently it appears to be holding firm on a 245-250 support level after reaching a 266.5 points high this year on February 28.

Statistics of *bolsa* bearishness abound. It is news now if daily trading volume rises above Pta10bn (£54.3m), whereas in January Pta20bn was the norm. Last year's annual trading volume of Pta3.693bn was similar to the 1987 figure, and the Madrid market's capitalisation of Pta13.457bn narrowed last year to an estimated Pta13.000bn.

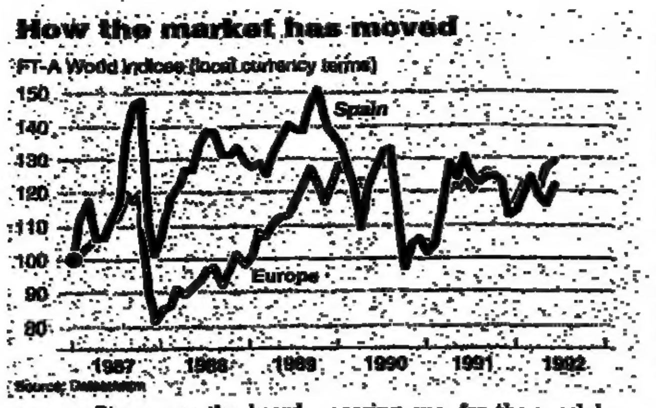
One revealing statistic illustrates how the foreigners have beaten a retreat. During the *bolsa*'s heyday in 1988-89, a period when it was regularly written up as one of the best global performers, non-Spanish transactions accounted for some 28 per cent of the Madrid market's transactions. Currently, such funds are reckoned to represent between 15 and 20 per cent of the total.

When it was the repeated flavour of the month, Madrid's weighting was around 8 per cent in the European stock market ranking, standing fourth behind London, Frankfurt and Paris. Now, some fund managers have trimmed the weighting down by as many as four points.

The diminishing foreign presence is a key factor behind the doldrums. It was, after all, the non-Spanish funds that pushed the *bolsa* towards giddy heights in the late 1980s.

The foreigners invested in the Madrid market at a time when Spain's GDP showed annual increases of 5 per cent and more. It began to shy away when growth peaked at the end of that decade, and it stayed away when the 2.4 per cent GDP growth posted in 1991 indicated that something just short of recession could be round the corner.

In 1990, corporate profits in Spain were still rising annually by more than 14 per cent. Last



year, profits across the board fell by at least half, to 7 per cent at best. Just as high growth brought the foreigners in, so did the absence of it frighten them away.

The result is that, with the Madrid market currently languishing at nine times earnings, Spanish stocks are, by most international standards, at bargain prices, for their price-to-cash-ratio is 4.4 times – despite which there are no takers.

That is the bleak reality of the situation. What are the chances of change?

The question is an embarrassing one, for the much-heralded catalyst for change towards a bullish *bolsa* was the EC's Maastricht treaty. Following Denmark's "no" referendum, that beckoning beacon on which all eyes were trained has proved, as far as the markets are concerned, to be as chimerical as the crock of gold at the end of a rainbow.

Maastricht had become an obsessive buzz-word for *bolsa* players. Mr Ignacio Gomez Montejo, the chief strategist at FG Inversiones Bursatiles, one of Madrid's major broking houses, opened a recent presentation in typical fashion: "A previously obscure Dutch town jumped a few months ago to the status of most-mentioned place by capital market professionals – Maastricht."

Mr Gomez Montejo painstakingly explained how, before the end of the present decade, Spain's spiralling budget deficit would shrink, and with it inflation and interest rates, because of the government's commitment to be a founder member of Economic and Monetary Union (Emu) within the EC, according to the convergence criteria agreed at Maastricht.

The bottom line, delivered by the respected Madrid analyst was: "The *bolsa* will be revalued by around 30 per cent, thanks to the impact of Economic and Monetary Union."

If Maastricht is now in doubt, then so is Spain's convergence commitment, and so is a sustained Emu-linked market rally. *Bolsa* players certainly understood it that way, and the Madrid stock exchange dropped by some 5 per cent in the week following Denmark's referendum.

In the absence of a clear Emu framework – analysts are now furious with themselves for ever having coined the so-called *Maastricht factor* – it is now up to the Spanish government to give a clear signal of its continued willingness to converge with northern European economies.

The first real opportunity for displaying such a sentiment will occur after the summer parliamentary recess, when the government unveils its 1993 budget. The markets will be looking for substantially reduced government spending, despite tha fact that general elections are due next year.

If the government does deliver the goods with a restrictive budget, then some of the havoc by the Maastricht question mark may be repaired. Additionally, the profile of those playing the Spanish markets might change and this, at the end of the day, should be far more important.

A government bent upon correcting economic imbalances – with or without Maastricht – will not ensure the sharp growth that attracted the speculative funds of the late 1980's. But it will, in time, bring in long-term investors who see eventual profit in Spain's spare capacity, in its underemployment and in its determination to catch up.

Brokers have reduced commissions as business wanes

Weaker firms under pressure

SPAIN'S BROKING houses have received a double punch. The *bolsa* is decidedly bearish, and as the cake gets smaller they are going to make earn even less than before from whatever business comes their way, writes Tom Burns.

At the begining of this year, fixed commissions that stood at 0.25 per cent of all market transactions were abolished. The price liberalisation was one of the final moves in the overhaul of the Spanish markets that commenced in the late 1980s, and it could not have come at a worse time for the brokers.

In the battle to obtain the diminishing business, the broking houses have reduced commissions by half to 0.12 per cent on major orders, and to even less for the really big ones. BBV Interactivos, the largest of the broking houses and owned by Banco Bilbao Vizcaya, estimates that the commissions war could lower earnings on arbitrage for the sector this year by up to 40 per cent.

This is good news for firms such as Carnegie Espana, which are not members of the stockmarket. "The market is overbroked and we have a lot of bargaining power to barter down the prices," says Mr Diego Prado, one of Carnegie's partners in Spain.

But for *bolsa* members the prospect is ironic. Reduced takings have come at a time when the remaining main planks that make for a successful stockmarket platform have been eased into place. In April, for example, a new body called the *Servicio de Compensacion y Liquidacion* (SCVL), was unveiled by the Stock Market Commission, to serve as a securities settlement and clearing service.

When the service becomes fully operational in the autumn, it is expected to reduce settlement from up to two weeks to five working days. The aim of the SCVL system is to have the purchaser receive securities on the day of payment.

In the meantime, ratings agencies have arrived in Spain, and the snowball success of mutual funds points to the possibility of increased trading volume should there be a market rally.

None of this, however, cheers the broking houses as they reel from the double punch. For the first time since the *Sociedades de Valores y Bolsa* (SVB), as the broking houses are known in Spain, came into being more than three years ago, in the wake of the *bolsa* reform, the sector's weaker members are under real pressure.

Officials at the Madrid stockmarket believe that the present 54-strong SVB community will be reduced to no more than 30. With few exceptions the main *bolsa* houses are linked to the big banks, and some 20, which have remained independent, have market shares of less than 1 per cent.

Such a reduction had been forecast back in 1989, when the SVBs replaced the individual brokers or *agentes de cambio y bolsa*, who, in the old pre-computerisation and pre-continuous trading days, used to operate on the floor of the market. Against the odds, the small fish survived, but with the commissions war now raging in earnest the crunch time cannot be delayed for long.

An SVB shake-out will be looked upon with interest by foreign institutions, which have been eyeing the *bolsa* for some time with a view to starting up operations. The crunch coincides with the lifting of all restrictions on foreign institutions trading actively on the *bolsa*.

Warburgs is one of the major brokers that is usually cited as a prospective Madrid market player, and there are believed to be five applications for membership pending at the *stock market commission*. Under the previous rulings, such prospective members, whether domestic or foreign, would have been obliged to buy into partnerships with the existing *agentes de cambio y bolsa*.

Crédit Lyonnais and Société Générale were two institutions that chose the partnership course. It is an open question whether the advantages these French firms gained by arriving early and acquiring a market share have outweighed the cost involved.

A problem they face, in common with virtually all the established broking houses, is an excess of personnel, some of which remains rooted in the traditional public notary role of the former *agentes* system.

Rating agencies

Companies get to grips with risk

IF INTERNATIONAL rating agencies had not recently opened up for business in Spain, conglomerates such as the Instituto Nacional de Industria (INI) would have had to invent them.

At the begining of this month, INI, the owner of most of Spain's public sector companies, was awarded an AA long-term rating and an A1+ for commercial paper by IBCA, the London-based institution.

The awards anticipated the forthcoming dissection of INI into two units: one for the group's loss-making companies in sectors such as coal mining and intergrated steel, and a second for those that make money.

IBCA's judgment on INI also coincided with the conglomerate's need to go to the markets, because the government has issued stern warnings about the unavailability of capital injections from the state budget.

The ratings, which indicated a very reduced investor risk, were thus a shot in the arm for INI's financial strategists as they began to plan presentations for institutional investors.

Mr Salvador Garcia-Atance, the chairman of Madrid brokers Asesores Bursatiles and a senior figure in Spain's financial sector, had long identified the need for ratings agencies. "It was quite clear that we had to have them," he says. Specialist institutions to evaluate risk were the logical consequence of the deregulation of the domestic stock exchanges.

Rating agencies are, in particular, fundamental to the growth of the underdeveloped domestic secondary market.

The volume of commercial paper and bonds in Spain amounted to Pta2,000bn in 1991, but only 26 companies availed themselves of these instruments, with just 11 of them accounting for 74 per cent of the total sum.

In the event, Mr Garcia-Atance negotiated the entry into Spain of the US agency Standard and Poor's. The Spanish subsidiary of the US firm was formally constituted in March, as a joint venture with Spanish partners that included the Madrid, Bilbao and Valencia stock exchanges, and it will be fully operational in September.

IBCA, which is in the process of expanding in Europe, opened its Spanish subsidiary in January with the Barcelona stock exchange as a junior partner. Mr Charles Prescott, chairman of IBCA Espana, sees a profitable future for the venture: "The people we are speaking to say that, in a few years, everybody is going to need a rating."

Initial business (IBCA has awarded a rating to Repsol, the state-controled energy, gas and chemical holding in addition to INI) is nevertheless slow, and Mr Prescott says he would be delighted if a total of 10 corporate ratings were awarded in the course of the year.

Persistent persuasion is going to be required to help medium and smaller Spanish companies overcome the reluctance with which they receive risk evaluators. "Everyone wants to have a Triple-A, and we have to convince them there is nothing wrong with being an A. Our first job is to help companies understand what a rating is," says Mr Prescott.

In its bid to develop this new market, IBCA Espana has created a promotional board that brings together institutions such as Inverco, an association grouping domestic funds, which represent the end-users of a rating. It is these funds – and they are growing strongly – which will in time determine the consolidation of the ratings business in Spain.

What is likely to occur is that the Spanish funds will introduce internal rules requiring a rating for investment in long-term paper. This practice, which already operates outside Spain, effectively regulates the risk. Mr Garcia-Atance believes that the National Stock Exchange Commission will eventually impose some form of risk regulation on the funds if they do not themselves voluntarily introduce them.

Tom Burns

FG

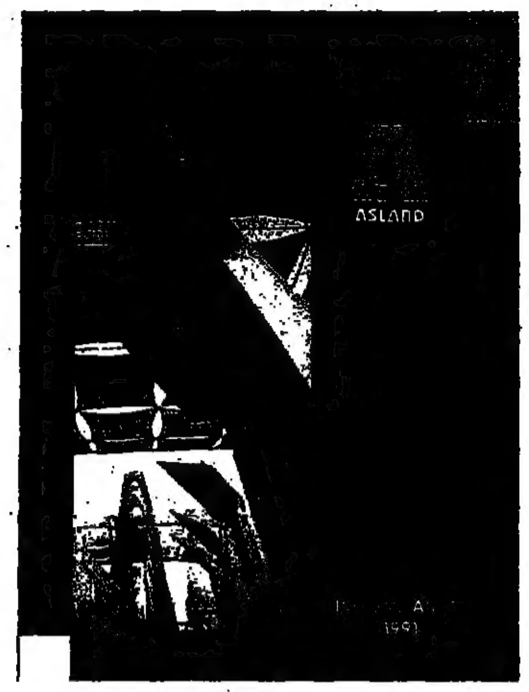
FG Inversiones Bursátiles, S.A., a leading independent Spanish stockbroker, arranged an investment seminar in Madrid and Seville in May 1992 for an invited gathering of international institutional investors. As part of the programme there were presentations from the following Spanish companies

FG

1

ANTENA 3 DE RADIO

ANTENA 3 DE RADIO was founded in 1982. Its network consists of 131 broadcasting stations throughout Spain. The daily audience averages 2,700,000 listeners.
ANTENA 3 DE RADIO holds a 12.5% stake in ANTENA 3 TELEVISION and, additionally, owns a 99.5% share of the Spanish newspaper DIARIO YA.
ANTENA 3 can be described as one of the most important communications groups in Spain.
Share Capital: Ptas. 1.2 billion
Retained Earnings: Ptas. 2.2 billion
1991 Net Sales: Ptas. 10.3 billion
1991 Pre-tax Profit: Ptas. 1.5 billion



2

ASLAND

ASLAND's stock is among the most traded on the Spanish Stock Exchange. The company is the market leader in Spain in cement and ready-mix concrete with its manufacturing facilities spread across the country and in Portugal.
With international investments in Europe, Africa and America, the Spanish group ASLAND is integrated into Lafarge Coppée, the world's leading group in the field of construction materials.
With total assets of U.S. $1.1 BN, in 1991 the ASLAND GROUP realized a net profit of U.S. $109 million. Its sales were U.S. $524 million.
ASLAND's equity capital totals U.S. $1.0 billion.

3

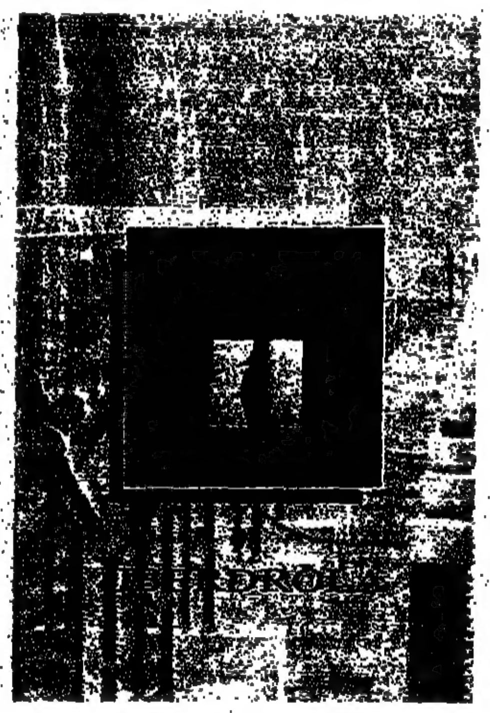
GRUPO BANCO CENTRAL HISPANO

GRUPO CENTRAL HISPANO is Spain's largest privately-owned banking and industrial group. The turnover of its companies accounts for some 4% of Spain's G.D.P.
BANCO CENTRAL HISPANO's total assets were U.S. $78.6 billion at year-end 1991, its equity amounted to U.S. $5.7 billion, its customer funds totalled U.S. $48.6 billion and its loan portfolio stood at U.S. $41.8 billion. The bank's BIS capital adequacy ratio is 12%, well above the 8% minimum requirement. Market share of customer funds is more than 17% and of loans is 16.6%.
CENTRAL HISPANO has 172 offices in 27 countries.

4

GAS NATURAL SDG, S.A.

GAS NATURAL SDG, S.A. is the piped-gas distribution company resulting from the merger of Catalana de Gas, Gas Madrid, and the piped-gas assets spun off from Repsol Butano.
GAS NATURAL SDG is Spain's leading piped-gas company and distributes gas directly in Catalonia and the Madrid region. In addition, GAS NATURAL SDG is present in most of the rest of Spain through its majority stakes in fifteen gas distributors and its minority participation in another four.
Share Capital: Ptas. 22.4 billion
1991 Consolidated Net Income: Ptas. 10.4 billion
1991 Net Sales: Ptas. 89.1 billion
Number of Customers: 1,900,000
Number of Employees: 3,038



5

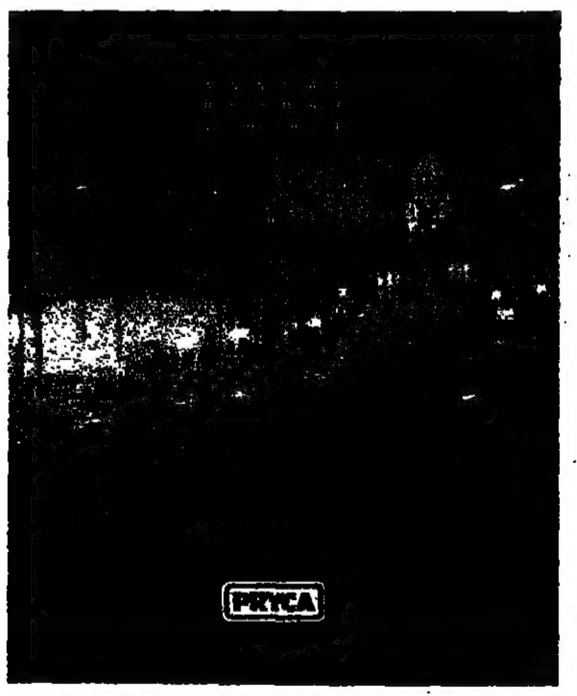
GRUPO IBERDROLA

GRUPO IBERDROLA is the result of the combination of Spain's two leading electric energy production and distribution companies.
The company's production structure, mainly based upon hydroelectric and nuclear generation capacity, is highly competitive both from a Spanish and a European standpoint.
GRUPO IBERDROLA's market is well balanced between domestic and industrial users and it supplies over 15.5 million people, or 41% of the population of Spain.

6

METROVACESA

METROVACESA is one of Spain's major real estate companies and is the leader in terms of rental income.
METROVACESA is the result of the merger of three smaller real estate companies in 1989. During the past two years, the company has raised its net profit from Ptas. 2.4 BN to Ptas. 4.5 BN and its rental income from Ptas. 3.5 BN to Ptas. 5.1 BN without increasing its rental surface.
METROVACESA covers all its costs and dividends with rental revenue and has no bank debt.



7

CENTROS COMERCIALES PRYCA, S.A.

Established in 1976, PRYCA *is a subsidiary of the* Carrefour Group, Corporación Financiera Alba and Sogara.
With 34 commercial centres, PRYCA leads the hypermarket retailing sector in Spain.
1991 Gross Sales: Ptas. 397 billion   1991 Net Income: Ptas. 10.6 billion
Number of Employees: 11,400
PRYCA plans to open 5 or 6 new stores in 1992.

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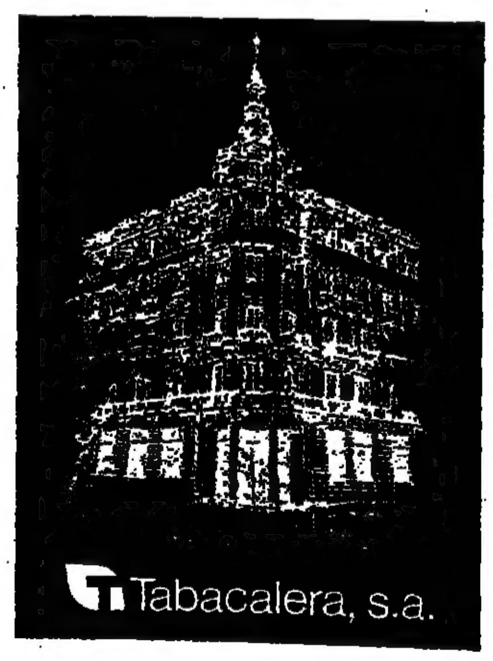

8

TABACALERA, S.A.

TABACALERA's two main business activities are the manufacture and distribution of tobacco and the distribution of stamps, franking papers and other similar documents. TABACALERA also participates in other sectors such as the production and sale of food products and wholesale distribution. The Spanish Government holds a 52.36% stake in the company.
In 1991, the Company's main business generated a cash-flow of Ptas. 30.0 billion and produced a net income of Ptas. 14.2 billion (16.4% higher than in 1990). The 1991 consolidated pre-tax profit of the TABACALERA GROUP was Ptas. 21.9 billion. The approved 1991 dividend is Ptas. 180 per share.

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